**CSR Limited**
9 Help Street Chatswood
NSW 2067 Australia
T +612 9235 8000
F +612 9235 8055
E-mail investorrelations@csr.com.au
www.csr.com.au
ABN 90 000 001 276

**ADDRESS TO SHAREHOLDERS**
**Chairman Ian Blackburne**
**CSR LIMITED AGM 2007**
**5 July 2007**

Ladies and Gentlemen,

In opening my chairman's report, it is a pleasure for me to first introduce our new Managing Director, Jerry Maycock.

## WELCOME TO OUR NEW MANAGING DIRECTOR

We appointed Jerry as a director of CSR in February this year and managing director in April.

He has enjoyed a distinguished 23 year career with Swiss based Holcim Limited, one of the world's leading construction materials companies, with assets of over $30 billion. Jerry has been Holcim's chief executive in both New Zealand and Australia. By late 2003 when he moved on from Holcim, his responsibilities included mergers and acquisitions, as well as the group's operations in most ASEAN countries, Australasia and the Pacific.

For the past three years, he was managing director and CEO of Australasia's leading commercial air conditioning and refrigeration systems provider – Hastie Group – where he successfully led several acquisitions, as well as Hastie's restructuring from private equity ownership to its listing in 2005 as a public company.

Since joining CSR, Jerry has been working exceptionally well with the board.

We are delighted that in his short time with the company, he has overseen the successful acquisition of Pilkington Australasia announced last Friday. Well done to Jerry and the team.

In a little while I will ask him to report on the business and give you his perspective from his first 100 days.

## FINANCIAL RETURNS

Last financial year, CSR's net profit before significant items dipped 3.7% to $241 million. Earnings per share (before significant items) remained steady at 27.4 cents.

Net profit, including significant items, was $273 million after tax. This included final net settlements of just under $103 million of long-standing insurance litigation, partly offset by an increase in the product liability provision, and a restructuring charge in bricks and roofing.

Cash flow from operating activities rose 20% to $380 million, excluding the one-off settlements from insurers.

The company's financial position continues to be strong, with flexibility for growth and for capital management. Last year, to support earnings per share, we invested $115 million to buy back 4% of the company's shares on the stock market at an average price of $3.06 a share.

CSR delivered another sound return on shareholders' funds above 20%.

We maintained total dividends at 15 cents a share– a payout of 55% of net profit before significant items**.** While this is the same dividend as the previous year, you will recall at that time we increased dividends by 25% over the prior year.

Fully franked dividends continue to be a tax effective way of distributing wealth to CSR shareholders.

Building shareholder value, a prime CSR aim, requires that the company grows – profitably. We have invested more than $450 million in development and acquisition capital expenditure in the past three years (in addition to stay-in-business capital). We have already announced major new growth initiatives this year.

## BUSINESS STRATEGIES INCLUDING GROWTH

CSR operates a diversified portfolio covering Sugar, Building Products, Aluminium and Property. Let me outline the Board's approach to each of these businesses.

In **Sugar** CSR has been the leading producer in Australia for over 150 years and is the 5th largest raw sugar producer in the world. We are the largest sugar refiner in Australia and New Zealand, supplying domestic and international markets, and one of the two largest ethanol producers.

Like other commodities, sugar experiences price volatility and profits inevitably fluctuate. Last year, world prices were higher and earnings improved, although we were disappointed that the result was impacted by bad weather during the sugarcane milling season and by related higher costs.

A major advantage of CSR in the world sugar industry is that we are a low cost producer and can compete globally, including with Brazil. We are investing in mill maintenance and new equipment as necessary to maintain that position.

CSR took steps to meet increasing demand for renewable fuel last August, when we completed the $15 million addition of a fuel ethanol plant at Sarina in North Queensland. We continue to monitor the need for additional capacity in this emerging market.

Earnings from ethanol and electricity co-generation – both produced from renewable sugarcane milling by-products – grew last year.

Already one of Australia's largest generators of non-hydro renewable power, CSR has potential to add an additional 300 megawatts of generating capacity which is enough to meet the power needs of around 83,000 homes. And our sugar mill electricity co-generation can be configured to a base load supply level, unlike most renewable power sources such as hydro, solar and wind, which vary in output depending upon weather conditions.

To expand power generation further will require much greater certainty about the various governmental mandatory renewable energy policies at state and federal level, and Australia's position on carbon trading.

Several potential CSR projects remain marginal in economic terms at present given current government policies. Eventually the cost of carbon is expected to drive investment in this sector, but until then, there is a bona fide case for transitional incentives until carbon price levels become established.

It is the firm view of the board that CSR should build on its strong position in sugar, and we are keeping an eye on opportunities in the global industry.

**Building Products** has some of the industry's best known brands, and a growing regional position in selected products used for energy efficiency and as lightweight building materials.

Last year was tough for Building Products, with a continued cyclical slowdown in the Australian east coast housing construction market. In response we significantly restructured the Bricks and Roofing operations, as well as streamlining support functions to increase efficiency.

CSR has been in the building materials business for 70 years and experience shows that construction cycles eventually recover. It is important that we invest to increase capacity where we are likely to hit constraints at the next upturn in the cycle, and where we need to reduce manufacturing costs to improve competitiveness so we are well positioned for the rebound in the market.

Building Products' growth last year was mainly in insulation, which plays an important part in improving energy efficiency in homes and buildings.

We are profitably expanding our strong regional insulation position across the Asia Pacific rim. In Australia last year, we completed a major expansion of capacity at our Sydney glasswool plant. Last month, we announced an investment of $50 million to increase Australian capacity by 30%, with the construction of a new glasswool plant in Brisbane's north.

In southern China, we constructed a Rokcore™ insulated panels plant, and bought a small glasswool manufacturer. We are now building a large rockwool insulation plant adjacent to the new panels plant. CSR now has a leading position in the high performance insulation market in the Asian region.

Last Friday, CSR announced its largest Australian/New Zealand acquisition for many years: we bought Pilkington Australasia, the leading manufacturer and distributor of architectural glass, for $690 million. Headquartered in Dandenong, Melbourne, the business has 1,700 employees.

Pilkington operates three factories in Dandenong and Sydney producing float glass and rolled glass, along with 32 distribution sites across Australia and New Zealand, which provide value adding processing.

Pilkington's products have an attractive growth outlook and substantial market share. They complement CSR's range of building products, supplying the strongly expanding market for energy efficient products in residential as well as commercial and industrial construction.

While CSR will initially fund the acquisition 100% from debt, we intend to re-introduce the CSR Dividend Re-investment Plan from November this year to raise approximately $180 million in equity from shareholders over the next 18 months.

This acquisition is a significant step in growing CSR Building Products' business particularly in our range of energy efficient products, and consolidates our position as a leading provider of building materials.

In **Aluminium**, CSR has a high performing investment in the low cost smelter at Tomago, NSW, and an active global aluminium marketing operation.

Last year, world prices for aluminium were higher but the cost of alumina and other raw materials rose more than 30%, resulting in profit below the prior year's record. CSR's return on funds employed in aluminium is excellent at more than 50% and it continues to be an attractive investment.

**Property,** our fourth activity**,** principally involves development of former CSR industrial sites. We achieve superior profits by rehabilitating and redeveloping this land rather than simply disposing of it. Property has made a good contribution to CSR's earnings for several years but this fluctuates depending on the timing of individual projects.

## PROFITABLE DIVERSIFICATION

Last year, several of our manufacturing business units faced challenging market or operational issues. Despite a relatively tough year, we delivered a reasonable result, largely benefiting from diversification.

Over the past five years – as shown in the chart – total revenue and earnings per share from CSR's continuing businesses have grown by over 50%, and return on shareholders' funds and earnings before interest, tax and significant items have both substantially increased.

Over that same period the company has consistently paid a significant proportion of sustainable profit as dividends to shareholders.

## SUSTAINABILITY

An emerging theme across a number of CSR's businesses is the growing role they are likely to play in the future as communities contend with the challenges of climate change. Our strategy is to seize opportunities to expand further in products that improve energy efficiency and environmental sustainability. CSR is well placed to grow in these sectors as demand increases.

To earn the right to operate, to build shareholder value over the long-term, we must continue to meet the community's expectations of us. Because CSR has been a part of Australia's commercial life for over 152 years, we are committed to operating all of our businesses in sustainable ways.

This year, we have extended our involvement in Greenhouse Challenge Plus – a cooperative partnership between industry and the Australian Government – to all of CSR's operations. This program aims to reduce emissions and to integrate greenhouse gas reduction into business decisions.

Last December, we launched a new accreditation scheme to assess the specific safety, health and environmental performance of each company worksite. This initiative is to ensure we continue to provide safe places for our people to work and minimise our impact on the environment.

If you have not already done so, I encourage you to review the expanded CSR Sustainability Report in our current annual report and on our website.

## DIRECTORS

As you have seen from the introductions earlier, we have made a number of changes to the board this year which continue its sound renewal.

I would like to acknowledge the considerable contribution that Alec Brennan, who retired as managing director in March, made to the company.

During his 38 year career with CSR, Alec served in a wide range of senior roles, becoming a director in 1996 and managing director in March 2003.

Alec has left our new managing director a company with a solid strategic foundation and a strong philosophy of continuously striving for improved performance.

In October 2006, we welcomed Ray Horsburgh to the board. Ray has over 30 years' experience in manufacturing, including until recently as group managing director of Smorgon Steel. Ray will tell you a little more about himself later in the meeting.

In March this year, Barry Jackson retired from the board following four years' valued service. We thank Barry for his contribution to the company and wish him well.

## PRIORITIES FOR THIS YEAR

Let me conclude by summarising our priorities for the way ahead.

As well as delivering value from the Pilkington acquisition, we remain focussed on:

- ensuring that we operate in a socially responsible way at all times.
- driving efficiency and productivity across all businesses
- carefully managing capital, and
- investing in organic growth and acquisitions that leverage our strengths

The board is committed to growth in all our businesses, and to building their capability to perform successfully across business cycles.

Our continuing goal is to provide consistent dividends and other benefits for CSR shareholders which improve over time.

On behalf of the board, I would like to thank CSR's employees for their dedication to high performance which ensured we achieved the result we did, despite challenging conditions.

It is now my pleasure to invite our new Managing Director, Jerry Maycock, to give you more information about CSR's operations last year and the company's future prospects.

**ADDRESS TO SHAREHOLDERS**
**Managing Director Jerry Maycock**
**CSR LIMITED AGM 2007**
**5 July 2007**

Thank you Ian

Fellow shareholders,

I am proud to have been asked to lead CSR, one of Australia's most distinguished corporations and the longest established manufacturing company.

I am excited to have the opportunity to draw fully upon my experience in building internationally-competitive manufacturing organisations to develop and enhance CSR and its value for shareholders.

I have certainly appreciated the warmth of the welcome, and the depth of encouragement and support which my colleagues on the Board and in management have shown to me since I arrived.

I have had an intensive introduction to the company's operations, visiting as many sites as possible, listening to and learning from my colleagues at all levels. I have also spent a lot of time improving my familiarity with our markets, and meeting with many of our customers.

CSR's four major businesses all have leading or very strong positions in their target markets and, in Sugar and Building Products, a portfolio of over 15 powerful brands, well recognised in their markets. You can see these brands displayed here in the room.

CSR's master brand is also extremely powerful, especially in Australia. We are reinforcing it with an advertising campaign this year around the theme of *Be Sure with CSR*.

CSR is investing a significant amount of capital to upgrade the company's assets. Many of these projects will start to improve returns progressively over the next three years.

My senior team and I are conducting a detailed review of all our businesses to refine strategy and our further growth options.

We have already seen that there are opportunities across CSR's businesses for continued growth through further investment in our operations and by carefully chosen acquisitions.

Despite difficult market conditions currently impacting some of our operations, the medium term outlook for our existing businesses is positive.

## CSR'S VALUES AND HIGH PERFORMANCE

As well as improving our plant and systems, we are building our base of skilled people – including boosting CSR's program to develop and retain people in key roles, and to measure and reward high performance.

A key driver of our future success will be to build on the company's way of doing business – our culture. As part of focusing our people's efforts to maximum effect, we are stressing the critical importance of CSR's fundamental values.

Importantly let me spend a moment to review our first priority: the safety and health of people.

CSR has demonstrated generally steady improvement in safety in most businesses over the past few years – as shown on this graph, which tracks the reduction in our recordable injury rate and severity rate. We are redoubling our efforts to turn around those areas where we fall short of acceptable performance.

## PERFORMANCE AND OUTLOOK

Let me now turn to last year's performance of each of our businesses and their current outlook.

## Sugar

In Sugar, earnings before interest and tax – that is, EBIT – rose 5% to $130 million.

**Raw Sugar's** revenue significantly increased with generally higher – but highly volatile – world sugar prices. The year started with raw sugar prices above US18 cents per pound having peaked at US20 cents per pound in February 2006. Prices have since halved, falling to below 10 cents per pound. More recently the price dipped further to around 9 cents per pound due to the short-term increase in global supply over demand, stimulated partly by last year's price peak.

The higher sugar prices were largely offset by a lower sugarcane crop, higher maintenance expenses and increased costs due to the extended milling season and wet weather which caused the delays. Unfortunately, the unusual pattern of wet weather during the milling season is continuing for the third successive year, with rain delaying the start of the current season by at least one month – which is almost unprecedented.

During the next three years our capital expenditure program will restore the efficiency of our operations and ensure that the mills remain competitive in the global market.

**Refined Sugar's** earnings fell slightly with reduced demand by industrial sugar customers in response to higher sugar prices. However, retail market share improved due to the successful introduction of specialised products and new packaging.

In March this year, Sugar Australia launched a $56 million major upgrade of the Melbourne refinery to enhance efficiency, lower costs and reduce its impact on the environment.

**Ethanol's** returns improved with stronger demand even though the cost of the raw material, molasses, rose.

Last year, a $15 million expansion at Sarina distillery began production on time and on budget, increasing production of fuel ethanol.

**Looking ahead in Sugar**, there are a number of exciting growth projects under consideration.

In Raw Sugar, we continue to review options to build on our strong global position. In renewable energy, sugarcane is emerging as important worldwide, both in the form of ethanol as a fuel and electricity co-generated at sugar mills.

This year's Sugar result is forecast to be substantially below last year, largely because of the sharp fall in raw sugar prices, but also the higher Australian dollar, higher costs due to the sugar mills' renewal program, and the significantly delayed start of the milling season. The only mitigating factor at present is that hedging completed in previous years will bring up the raw sugar price to around 11 cents per pound on average.

Although the short-term world market outlook for sugar is depressed, we do expect prices to improve in the medium term because of the influence on the world market of the cost of sugar industry expansion in Brazil, by far the world's largest sugar producer.

We expect improved returns from Refined Sugar and Ethanol as long as the raw sugar season is not delayed much further which would interfere with feedstock supplies to those two businesses.

## Building Products

In Building Products, the steep downturn in residential housing construction in our main markets in Australia's eastern states has significantly affected returns. Although last year's EBIT of $85 million was up from the previous year's $81 million, the latter included $21 million of one-off costs associated with closing two plants. Excluding these, underlying EBIT was down about 17%.

Higher operating costs, due to reduced factory utilisation and increased fuel and energy costs, were partly offset by operational improvements.

We have strong programs across each business: making operational improvements, including increasing plant efficiency; reducing reject rates; and improving logistics.

**Pilkington**, the acquisition we announced last Friday is a significant step in expanding CSR Building Products' scale of operations. This is the only producer of architectural glass in Australia and New

Zealand, and is a very good fit with our existing product portfolio.  We really like the fact that it positions CSR to capitalise on the rapidly increasing focus on energy efficient building products.

A substantial business with 1700 employees, last financial year Pilkington generated revenue of over $400 million which is expected to grow to $430 million this year.

As part of the acquisition, CSR is investing $110 million to rebuild the Dandenong manufacturing plant in Victoria in order to lower costs, increase capacity and make CSR the sole manufacturer of energy efficient CVD coated glass in the southern hemisphere. This coating technology produces glass which selectively blocks heat transfer through glass whilst permitting light transmission as normal. Together with double glazing units, this gives Pilkington the ability to tailor glass products which improve energy efficiency of windows by up to 60%.

The business is therefore well positioned to meet increasing demand for architectural glass in residential and other construction.  It currently has nearly 60% share of the glass market overall, and within that 80% of the market for coated glass, which is small at present but growing at 30% per year.

Excluding one-off costs, the acquisition is expected to be earnings positive from next year. Upgrading the Dandenong plant will significantly enhance earnings by 2010.

With Pilkington's experienced management team, we have already made a strong start to a 100 day program designed to integrate and refocus the business.

The company will be rebranded under the CSR master brand and will be managed within our **Performance Systems'** group. This division markets Bradford™ insulation, Bradcore™ panel systems, Hebel™ lightweight concrete products, and Edmonds™ ventilation systems.  The division continues to expand across Australia and Asia. These are also the main products already within CSR that respond to energy efficiency as a major growth driver, so the glass business fits well with them.

**Gyprock™ Plasterboard** has a $140 million three year program under way to replace and enlarge the Melbourne Gyprock™ plasterboard factory. This factory will maintain CSR's position of cost leadership in the Australian plasterboard industry. Last year, as a small but very interesting expansion in an adjacent segment, we acquired Fricker Ceilings, a leading supplier of suspended ceilings to the top end of the commercial building sector.

**PGH™ Bricks and Monier™ and Wunderlich™ Roofing** operations have been restructured as a single business to streamline overheads and improve market service.  In Brisbane, we expanded the Darra low cost brick plant on a reduced site, and are closing a less efficient factory at nearby Strathpine.  In Melbourne, we are upgrading our roof tile plant.

At this point of the cycle we have six brick kilns mothballed, and have rationalised our product range, which will serve us well as cyclical demand increases

**Building Products' outlook** is for the residential construction market to remain relatively flat in the eastern states this year, although there are some signs that the Queensland market is improving.

However, a significant amount of latent demand is accumulating especially in New South Wales as rental availability continues to run below supply, which bodes well for the timing of the cyclical upturn in the market.

Unlike previous cycles where commercial construction activity has also slowed down with housing construction, the current commercial market is strong and we are building our presence in this market.  The alterations and additions market also continues to be strong.

Even without the contribution of the Pilkington acquisition, Building Products' EBIT for this year is expected to be higher than last year, with sales growth in the commercial sector and further cost reductions.

Our strategy is to position all of our businesses to maximise the benefits from the inevitable housing cycle upswing, while minimising costs in the interim.

### Aluminium

In Aluminium, CSR's 70% share of Gove Aluminium Finance's net profit before finance costs fell 9% to $70 million on the previous year's record. Sales of value added aluminium products from Tomago smelter made up 20% of sales volume.

To stabilise returns at acceptable levels, Gove Aluminium hedges a significant proportion of its share of production. The bulk of last year's aluminium sales had been hedged a number of years before at lower prices and, although the average realised price was higher than the prior year as a result of improved world prices, it was not quite sufficient to offset the increase in alumina and other costs.

**Aluminium's outlook** is healthy. Although technical factors at the Tomago smelter may mean that production volume is marginally lower this year, higher prices last year enabled us to extend our hedging for the current year and beyond at good levels, so that earnings are expected to rise this year.

### Property

EBIT of $70 million was down from $76 million. Property's earnings are predominantly based on a limited number of relatively large transactions, resulting in the potential for significant swings in returns between financial reporting periods. Last year, the main contribution was the sale of 40 hectares of land in the Erskine Park industrial site in western Sydney.

As part of the restructure and consolidation of our Bricks and Roofing operations, further land such as in Strathpine, Queensland has entered our development pipeline.

**Property's outlook** for this year is for EBIT to be in the sustainable range of around $40 million.

## LOOKING AHEAD

In the coming year many of the issues that negatively impacted our business last year, continue – including lower sugar prices, a higher A$/US$ exchange rate and the delayed turnaround in the east coast housing market. Sugar prices, for example, have fallen by 10% since the start of this financial year while the delayed start to the milling season will also increase costs further.

In the year ahead we expect that a significant fall in Sugar's earnings before interest and tax or EBIT will be broadly offset by improvements in Building Products including Pilkington. Net profit after tax will also be impacted by higher interest costs due to the funding required for the Pilkington acquisition and a higher tax rate due to the low level of tax losses available compared to previous years. We will provide guidance for CSR's overall results at our half year earnings announcement in November.

While the short-term picture for our continuing businesses in total remains challenging, the medium to longer term outlook is very encouraging.

Many of our productive assets have already been – or are currently being – refurbished or rationalised and CSR will benefit from the range of positive medium-term factors affecting most of our businesses. We shall strive to optimise value from the attractive Pilkington acquisition – and will keep you in touch with progress there.

So, I am confident that our strategies for improving performance and driving greater returns from our businesses will lead to the company's continued success and growth.

Again thank you for your warm welcome to me and, importantly, for supporting CSR.