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**ADDRESS TO SHAREHOLDERS**

**Chairman Ian Blackburne  
CSR LIMITED AGM 2005  
14 July 2005**

Ladies and Gentlemen,

I am pleased to report that we celebrate CSR's 150<sup>th</sup> anniversary with another very successful year for the company.

- We have delivered a 25% increase in net profit before significant items of \$201 million. Including significant items, net profit was \$287 million.
- We increased our total dividend by 9% to 12 cents and lifted franking to 100%
- We have announced a proposed capital return to deliver \$182 million to our shareholders
- And during the last two years, we have announced over \$400 million in growth initiatives to ensure we maintain the momentum we have now gained.

We are well placed for a successful future as our businesses are growing stronger every day. I will talk more about CSR's future in a moment, but first let us reflect on the company's significant contribution to Australia since the mid 1800s.

Over the past 150 years, many of CSR's businesses have been pioneers in their respective industries and have played an important part in building the Australia we live in today.

In Sugar, we have been the leading producer since CSR's beginning in 1855.

In Building Products, CSR began producing building boards from sugarcane waste fibre in 1936, and we introduced the famous Gyprock™ plasterboard in 1947.

We have an effective 25% interest in the Tomago smelter, the second largest in the Australia, which began producing aluminium over twenty years ago.

Over the decades as we adapted to changing times, CSR has embraced a diverse range of industries, including the production of carbon dioxide, chemicals, floor tiles, macadamia nuts, tinned pineapples, rum and, in World War II, we even made cannon shells and signal pistols for the war effort.

At other times, the company has been a major producer of coal, oil and natural gas, and timber and pastoral products. And we have mined copper, gold, tin and other minerals.

For 150 years, CSR has provided jobs to tens of thousands of Australians and has played a critical role in training countless apprentices in a whole range of skills. We learned earlier this year that Prime Minister Howard's father was one of CSR's apprentices.

CSR has paid a dividend every year since it became a public company in 1887. Today it is the fifth oldest company in the ASX top 100.

Companies only survive if they continue to meet the needs of their customers, their people, their shareholders and their communities. CSR has clearly done this. Our challenge is to make sure we continue to do so.



Our financial goal is to maximise shareholder returns by identifying opportunities for value creating growth and lifting operational performance.

I will ask Alec Brennan to speak to you in more detail in a few minutes regarding the specific growth initiatives we have announced for CSR's businesses.

Our sustainability goals include improving the safety of our employees and reducing our impact on the environment. The board has an active safety, health and environment committee that focuses solely on these issues. The most important job of the board committee is to ensure that there are comprehensive programs in place within the company to manage these issues and I can assure you there are.

We all appreciate that one injury is one too many. But in the last year we have seen a significant reduction in the number of employees injured and the severity of their injuries. On the environmental front, we have two distinct primary concerns. Firstly we are working to minimise the environmental impact of our operations and Alec will describe changes we have made this year to reduce waste and emissions.

The second is the role our products play in improving the environment. On this score, I am pleased to report that we are making a major contribution. Our insulation products play a significant role in conserving energy and we are large producer of renewable electricity and we have growing business in the production renewable fuel.

CSR is also investing in the communities in which we operate. Since December 2003, CSR and its employees have supported 13 Australian charities through the Community Support Program.

I would like to congratulate CSR's employees who have donated over \$30,000 to the Red Cross Asia tsunami appeal in support of the company's employees in Malaysia and Thailand. CSR has matched these donations in addition to a making a \$50,000 contribution to this cause.

Our Sugar business continues to face a challenging global market which impacts many regional communities in Queensland where CSR employs almost 1,800 people.

CSR is making a significant effort to promote improvement in the sugar industry. For example, we are working with our industry partners to assist sugarcane growers to increase farm productivity. Launched three years ago, this program now has an established track record of improving crop yields.

In May 2004, CSR was pleased to receive the Sugar Industry Innovator of the Year Award in recognition of its leadership.

Our efforts to deliver a whole range of operational improvements, to grow revenue, to introduce new products, to improve productivity, to contain costs and to make effective investments have significantly improved the return to our shareholders.

When you look at our performance since we completed the demerger of Rinker Group Limited in March 2003, which was one of the most successful events in the company's 150 year history, CSR's total shareholder return – in other words the increase in share price plus dividends – has outperformed the Australian stock market.

To enhance returns we have pursued capital management initiatives.

We have returned \$72 million to shareholders through the share buyback program. In addition, today you will be voting on the proposed \$182 million capital return. If approved, this will give shareholders an additional payment of 20 cents per share.

The return of capital will establish a more efficient capital structure appropriate to CSR's range of businesses and liabilities and increase the return on equity. We do not believe the capital return will impact the company's ability to continue to pay a significant proportion of sustainable profit as franked dividends and our balance sheet will provide ample flexibility for future growth.

I would now like to turn to corporate governance.

We know that corporate governance and remuneration are of particular interest to our shareholders and we value and thank you for your feedback. As I highlighted last year, CSR has completed a rigorous review of our governance framework to ensure we comply with changes to the Corporations Act known as CLERP9. I am pleased to report that CSR continues to receive recognition in the business community and among investors for its high standards of governance and reporting.

We work hard to ensure that you are fully aware of our policies and charters through documents available at any time on CSR's website. The annual report is also an important part of our disclosure. As you will have seen, this document is a thorough review of the company's performance provided to you in a concise and cost-effective format.

In a further effort to reduce share registry costs, we will soon be requesting that all shareholders provide direct debit details for payments of future dividends.

This year will be the first opportunity for shareholders to vote on the adoption of the remuneration report. While we are not technically required to vote on the report until next year, we have taken the opportunity to adopt this requirement a year early.

So we invite you to ask questions about remuneration, and of course any other issues of governance you would like to raise, a bit later in the meeting.

We have made changes to your board this year. As I highlighted at the start of the meeting, we have appointed Kathleen Conlon and Richard Lee as non-executive directors.

Kathleen joined the board in December 2004. She is a pre-eminent leader in organisational effectiveness and productivity improvement. In the last six months, she has proved to be a valuable contributor to the board as we work with CSR's management to improve our operations and lower costs.

Richard Lee joined the board in May 2005. We are very pleased to welcome him back to CSR where he began his career in CSR's sugar division. Richard has since built an impressive career in investment banking as chief executive of NM Rothschild Australia Group. His broad range of experience will be particularly helpful to the company's strategy of generating value adding growth.

John Wylie retired from the board in March of this year because of the competing time demands resulting from the successful growth of his investment banking firm. We have been very fortunate to have the benefit of John's advice over the past four years and we thank him for that.

Today, we also bid farewell to Carolyn Hewson. Carolyn retires from the board after serving CSR shareholders for ten years. She is our longest serving current director and chairs the Audit Committee. Carolyn also played an integral role in the successful demerger of Rinker as chair of the Due Diligence Committee. She has been a thoughtful and diligent colleague on the board and has made a very significant contribution to CSR during a period of rapid change for the company. I am sure that Carolyn will have much to contribute to other boards in the years ahead. Following Carolyn's retirement today, John Story will be taking over as chair of the Audit Committee.

Carolyn, on behalf of all of us here today, we thank you for your outstanding service to CSR shareholders and wish you every success in the future.

Let me now look at the year ahead.

CSR is a diverse group so there are many influences which impact our results including movements in exchange and interest rates, commodity prices for sugar and aluminium, and levels of building activity.

While recent activity in the building market is slowing in some regions, trading in the sugar market has improved, and the prospects for CSR's other business activities remain positive. The net effect for the company's outlook at this time is for an operating result similar to last year.

If shareholders approve the proposed capital return, this will, of course, increase our interest cost and marginally reduce our net profit.

I would like to re-emphasise our long term strategy for the company of optimising the performance of our businesses and prudent investment in growth. In this way we will continue to deliver value to our shareholders.

The challenge is only met through the commitment of CSR's people who are critical to the company's ability to prosper and grow. From the video screened at the start of the meeting, you will have seen that a constant in CSR's history has been the quality, integrity and commitment of its people.

On behalf of the board, I would like to thank CSR's team of 6,000 employees, led by Alec Brennan for their continuing dedication to the company.

This year we are celebrating their contribution with the CSR Champions 150 Awards Program. People from across CSR will be honoured for making significant contributions to the company in key areas such as safety, innovation and customer service.

Ladies and gentlemen, thank you for your support of CSR. CSR is one of a few listed Australian companies to reach its 150<sup>th</sup> anniversary. We are well placed to continue this successful story in the years ahead.

It is now my pleasure to call on Alec to address the meeting. In doing so, may I thank you Alec on behalf of the board and all shareholders, for your continuing leadership and commitment to excellence right throughout the company.

**ADDRESS TO SHAREHOLDERS**  
**Managing Director Alec Brennan**  
**CSR LIMITED AGM 2005**  
**14 July 2005**

Fellow shareholders,

CSR has changed considerably since its origin as Colonial Sugar Refining Company on 1 January 1855. Following the demerger of Rinker two years ago we have focussed our attention on improving and growing our remaining Building Products, Sugar and Aluminium businesses and our Property investments.

We acknowledge the diversity of our portfolio but that diversity has helped to underpin our returns even when some of our markets have been challenging.

In the year just ended, the slight downturn in returns from Building Products and Aluminium was more than offset by improved performance from Sugar and a significant lift in Property earnings. Overall earnings before interest and tax rose 23% to \$322 million.

Our businesses are strong cash generators and this year was no exception. Net cash from our operating activities was up 10% to \$321 million.

CSR's strong financial position enabled the company to spend around \$230 million on growing the company while maintaining gearing at a modest level of 16.5%.

If the capital return is approved later in the meeting, our gearing will increase to a range of 30 to 40%, which we think is a more appropriate level for the company because it delivers better value for the shareholders.

Shortly, I will spend a few moments talking about each of our businesses, their operating performance for last year and other important activities they have undertaken.

Before that, I want to review our efforts to improve the safety, health and environmental performance of our businesses.

Workplace safety is very important to us. It is the very first item discussed at all management meetings in CSR. This year our injury frequency and severity rates are our best on record. Many of our sites have been injury free for several years. While this is good news, there are still too many injuries. When we analyse each and every injury that occurs, we generally find that they were preventable. Our challenge is to review how we think about risks in our workplaces and then change how we act.

This year we have made several safety improvements. We analysed the factors behind the success of our safest sites – which are as safe as any factories in the world – and we are applying the knowledge gained from this analysis to our poorer performing sites.

We are implementing programs across all of CSR to reduce manual handling injuries which are the most frequent cause of injury for our people.

In addition we are improving our computer based safety and environment management systems. This will assist us to share learnings across CSR.

To improve environmental performance this year, each business has developed targeted improvement plans. The main focus is to progressively improve the amount of energy and water we consume per unit of output and to progressively reduce the amount of waste and greenhouse gas we generate. All businesses must report their progress to senior managers and the board.

We are making reasonable progress to improve our performance.

For example, we are investing in a major waste recycling project at our rockwool insulation plant in Clayton, Victoria. By compressing and reusing material during the production process, we can reduce waste by 85%.

Our property business is also supporting environmental initiatives. In June last year, CSR was awarded the Case Earth Award for rehabilitation of 15 hectares of woodlands and

waterways for the benefit of residents at the site of a former clay pipe factory at Woodcroft, near Blacktown in Sydney.

A number of CSR businesses play an important role in lifting Australia's overall environmental performance. Our Bradford Insulation business is helping to lift the energy efficiency of housing throughout Australia.

CSR Ethanol is a growing supplier of renewable fuel from our Queensland distillery. Market acceptance for biofuel products continues to recover and CSR is now supplying over 50 petrol stations in Queensland – a threefold increase in the last year. Further significant growth is expected in the year ahead.

Our sugar mills produce renewable electricity that is distributed to the Queensland Grid and we are currently commissioning a major new facility at our Pioneer Mill in the Burdekin to substantially expand renewable electricity production.

I will now talk about each of our businesses

## **CSR Building Products**

CSR's building products have been a part of the Australian building industry for nearly 70 years. We have strong brands such as Gyprock™ plasterboard, Monier™ and Wunderlich™ roof tiles, Bradford™ insulation and PGH™ bricks and pavers, which, in many cases are the leaders in their respective markets. All brands are strongly underpinned by CSR's longstanding and solid reputation in the industry – the cornerstone of certainty that gives people confidence when they buy a CSR branded product. In the past year we have refreshed our branding to reinforce this position.

Outside Australia and New Zealand, we have a growing business in Asia. We opened our first operation in Malaysia in 1983. Today we also have operations in Singapore, Thailand and China, with sales offices in a number of other countries.

In the last year we have expanded our insulation operations in China significantly to meet growing demand. We completed the commissioning of the 6,000 tonne per year glasswool plant in Nanning and increased capacity of the Dongguan rockwool plant by 20% to 24,000 tonnes per year. This will enhance our position as the largest insulation producer in the Asia Pacific region.

Here in Australia, there continues to be much discussion about the slowdown in the housing sector. The market has been slowing for several years and in the last year, the number of new dwellings that started construction slowed by 4.5% across the country. The New South Wales market has been particularly hard hit following the introduction of a new state tax on vendors of properties.

The weakness in the housing market has been partly offset by stronger activity in the commercial market which today makes up about 20% of our building products sales.

Our pre-tax operating profit from Building Products fell from \$113 million to \$108 million on weaker volumes and some higher one-off costs. These costs came as we stepped up our spending on maintenance and other initiatives to lift customer service standards and to resolve some longstanding factory issues.

We are now one year into a concerted three year effort to improve our efficiency, strengthen operational performance and deliver improved marketing initiatives. The program is making good strides so far but there is still two years of solid work to be completed.

The program includes significant reinvestment in a number of our businesses to reduce our unit costs. For example, work is well underway to double the capacity at our Oxley brick plant south of Brisbane. This will improve our capability in the rapidly growing south east Queensland market.

We are also well advanced on a project to expand our insulation factory in Ingleburn, New South Wales. The expansion will allow us to lower costs and meet growing market demand in Australia without having to rely on imports from our overseas factories.

## **Aluminium**

CSR's interest in aluminium is through our 70% owned subsidiary, Gove Aluminium, which owns 36% of the Tomago smelter in the Hunter Valley. Tomago produces 25% of Australia's aluminium output and is one of the world's lower cost operations.

CSR's joint venture company, Gove Aluminium delivered \$142 million in operating profit down from \$144 million last year. Returns were marginally lower due to the impact of the higher Australian dollar and lower prices from hedged sales.

Tomago completed construction of its 15% expansion project on time and on budget. As a result, Gove Aluminium's sales grew almost 4% to a record of over 173,000 tonnes. Production at Tomago will continue to ramp up over the next few years as the benefits of the expansion flow through.

This year we expect returns from Aluminium to be down between 5 to 10% due to lower A\$ returns. The rate of growth in global aluminium demand is expected to slow, however earnings will continue to be supported by our hedging position.

## **Sugar**

Now let's turn to our sugar operations.

CSR Sugar comprises three separate businesses – milling; refining; and ethanol production.

- In sugar milling, CSR produces 40% of Australia's raw sugar at our seven mills in North Queensland.
- In sugar refining, we have increased our ownership position to 75% of the refining joint ventures in both Australia and New Zealand. These joint ventures are the leading operators in both markets.
- CSR Ethanol is the major industrial ethanol supplier in Australia with markets also in Asia.

Last year, CSR Sugar's operating profit more than doubled to \$90 million as the world prices for raw sugar and molasses rose significantly. The result was also helped by a \$10 million payment as part of Government restructuring initiatives that we are using to fund a comprehensive program to lift industry productivity.

Our refining business also increased its operating profit last year to \$37 million up from \$17 million. Following the increase in our ownership in the joint venture to 75% we have fully consolidated this business in our results. We see additional opportunities to expand the refined sugar business including the introduction of new products such as CSR Smart which is a sugar blended with low kilojoule sweeteners. We will be providing you samples of this new product to take home with you after the meeting today.

I mentioned earlier that we are currently commissioning a major new facility to expand our production of renewable electricity. The new plant at our Pioneer Mill in the Burdekin region will increase CSR's total renewable energy production by almost 80% to 620,000 megawatt hours a year. This is enough electricity to supply the requirements of 100,000 households. The project has been a difficult one for us and has been hit, like many Australian construction projects by escalating costs and labour shortages. We are currently in the final stages of commissioning and are hopeful that the new facility and the Pioneer Mill will be fully on line within the next few weeks.

The outlook for CSR Sugar remains heavily influenced by the market for raw sugar prices and the strength of the Australian dollar. At this stage, prices are a little ahead of last year and about 50% of the raw sugar crop has been priced. However it is still too early to say categorically that this will translate into a better profit performance.

## **Property**

Our property activities involve maximising returns from the sale or development and lease of former industrial sites. We have a number of properties in various stages of development which will deliver significant returns over the long-term.

In July last year, we accelerated the infrastructure development of the Erskine Park industrial estate with the conditional sale of 17 hectares to BlueScope Steel. We are pursuing other opportunities to develop additional sites on the estate. In some cases it may make sense for us to continue to own the developments to provide an ongoing revenue stream.

Last year, Property contributed \$29 million to our operating profit, nearly double the prior year. This year the results are expected to be at least in line with last year.

## **Current performance and outlook**

Now, let's look at our outlook for our current year.

Given the nature of our businesses, CSR's profit performance is a little more subject to influences outside of our control than some other businesses, particularly because of commodity prices and exchange rate movements. In May when we announced our annual results, we said we were looking at a result for this year broadly in line with last year. While a number of things have changed since May and there remain quite a number of uncertainties, we still believe that at the operating level, this is achievable.

There is no doubt that building markets are a little weaker than we expected, particularly in Queensland and New South Wales. We will be working to offset this with additional cost saving initiatives.

On the other hand, sugar prices to date have been slightly better than we expected. Both our Sugar and Aluminium businesses benefit from a weak Australian dollar and suffer when it strengthens.

I can assure you that we will continue to work hard at improving the performance of our businesses through aggressive control of costs, improving productivity and developing new growth opportunities.

Overall, CSR has a diverse portfolio of businesses. Although our businesses are cyclical, over a long period of time, these cycles have tended to offset one another to ensure we deliver a solid return to our shareholders.

I want to thank my fellow employees for their contribution to the company and their commitment to a strong future. As you may know, almost 60% of employees are also shareholders and we are strongly committed to building the value of the company for its owners.

Thank you for your continued support of CSR.