

# 150 Building on 150 years

CSR'S ANNUAL GENERAL MEETING 2005

## Invitation

Dear Shareholder,

You are invited to attend CSR's annual general meeting.

This year marks CSR's 150th anniversary since its establishment on 1 January 1855. A brief outline of our history has been presented in the annual report.

If you choose to attend the meeting, please bring the enclosed proxy form with you to speed your registration for entry. If you do not plan to attend, you are encouraged to appoint a person to attend and vote on your behalf as your proxy.

You may appoint the chairman as your proxy, if you choose. If the chairman is appointed your proxy and you do not direct him how to vote on agenda item 5, you must follow additional instructions on the proxy form for your vote to be cast on that item.

Proxy forms must be received by 10.00 am Sydney time Tuesday 12 July 2005 to be valid. Your proxy may be appointed in a variety of ways described on the next page under 'Proxies'.

I look forward to seeing you at the AGM.

Yours sincerely



IAN BLACKBURNE  
Chairman

## Notice of Meeting

The annual general meeting of CSR Limited will be held in:

The Ballroom  
The Westin Hotel  
1 Martin Place, Sydney  
at 10.00 am on Thursday  
14 July 2005

### AGENDA

#### ORDINARY BUSINESS

##### 1. TO RECEIVE AND CONSIDER

the financial report and the reports of the directors and of the auditors for the financial year ended 31 March 2005.

##### 2. TO ADOPT

the remuneration report for the financial year ended 31 March 2005.

*Note that the vote on this item is advisory only and does not bind the directors or the company.*

##### 3. TO ELECT DIRECTORS

To consider and, if thought fit, to pass the following resolutions as ordinary resolutions:

- a. That Kathleen Conlon, who was appointed in December 2004 and will retire at the close of the meeting in accordance with clause 53.2 of the company's constitution, be elected as a director of the company.
- b. That Richard Lee, who was appointed in May 2005 and will retire at the close of the meeting in accordance with clause 53.2 of the company's constitution, be elected as a director of the company.

Separate resolutions will be considered in respect of each of the above directors.

Note that Carolyn Hewson has advised the company that she intends to retire at the close of the meeting in accordance with clause 55 of the company's constitution. Having served the company for 10 years, Carolyn will not be seeking re-election.

#### SPECIAL BUSINESS

##### 4. TO RETURN CAPITAL TO SHAREHOLDERS

To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

That, in accordance with section 256C(1) of the Corporations Act 2001 (Cth), approval is given for the company to reduce its share capital by paying to each person who is a shareholder of the company as at 7.00 pm on 21 July 2005 (record date) the amount of \$0.20 per share held by that person on the record date.

##### 5. TO INCREASE THE MAXIMUM AGGREGATE REMUNERATION OF NON-EXECUTIVE DIRECTORS

To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

That, with effect from and including the financial year commencing 1 April 2005, the aggregate maximum sum available for the remuneration of non-executive directors be increased by \$400,000 per year to \$1,150,000 per year.

##### Voting on Item 5 – votes to be excluded

CSR will disregard any votes cast on the proposed resolution in item 5 by any of the CSR directors or by any associate of a CSR director.

However, CSR will not disregard a vote if:

- it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form (or provided electronically)
- it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form (or provided electronically) to vote as the proxy decides.

CSR

## **DETERMINATION OF ENTITLEMENT TO ATTEND AND VOTE**

For the purposes of the meeting, shares will be taken to be held by the persons who are registered as shareholders as at 7.00 pm Sydney time on Tuesday 12 July 2005.

### **PROXIES**

If you are a shareholder entitled to attend and vote, you are entitled to appoint one or two proxies. Where two proxies are appointed, you may specify the number or proportion of votes that each may exercise, failing which each may exercise half of the votes. A proxy need not be a shareholder of the company.

If you want to appoint one proxy, you can use the form provided. If you want to appoint two proxies, please follow the instructions in point 4 on the reverse of the proxy form.

The company's constitution provides that, on a show of hands, every person present and qualified to vote shall have one vote. If you appoint one proxy, that proxy may vote on a show of hands, but if you appoint two proxies, neither proxy may vote on a show of hands.

If you appoint a proxy who is also a shareholder or is also a proxy for another shareholder, your directions may not be effective on a show of hands. Your directions will be effective if a poll is required and your proxy votes.

You may lodge a proxy online at Computershare's internet address below by following the instructions set out on the website. Shareholders who elected to receive their notice of meeting and proxy electronically will have received an e-mail with a link to the Computershare site.

To be effective, the proxy form or electronic proxy appointment must be received by Computershare Investor Services Pty Limited at the address, facsimile number or internet address below, or by CSR at its registered office, Level 1, 9 Help Street, Chatswood, NSW, Australia, not later than 10.00 am Sydney time on Tuesday 12 July 2005.

### **WHERE TO LODGE A PROXY**

CSR Limited share registry  
Computershare Investor Services  
Pty Limited  
GPO Box 242

Melbourne VIC 8060 Australia  
*(Please use enclosed reply envelope)*

Facsimile +61 2 8235 8220

Lodge proxy electronically at:

[www.computershare.com/au/proxy/csr](http://www.computershare.com/au/proxy/csr)

You can arrange to receive shareholder information electronically, or obtain a replacement or second proxy form, by contacting Computershare on 1800 676 061 (within Australia) or +61 3 9415 4033 (outside Australia) or go to [www.computershare.com.au](http://www.computershare.com.au) (Investor Centre).

### **ADMISSION TO MEETING**

Shareholders who will be attending the CSR annual general meeting and who will not be appointing a proxy, are asked to bring the proxy form (if they have one) to the meeting to help speed admission.

Shareholders who do not plan to attend the meeting are encouraged to complete and return a proxy form or lodge a proxy online, for each of their holdings of CSR shares.

### **QUESTIONS AND COMMENTS BY SHAREHOLDERS AT THE MEETING**

In accordance with the Corporations Act 2001 and the company's past practice, a reasonable opportunity will be given to shareholders at the meeting to ask questions about, or make comments on, the management of the company. Similarly, a reasonable opportunity will also be given to shareholders at the meeting to ask the auditor, or their representative, questions relevant to the conduct of the audit and the preparation and content of the auditor's report.

## **EXPLANATORY NOTES**

### **1. RECEIVE AND CONSIDER THE REPORTS FOR YEAR ENDED 31 MARCH 2005**

The CSR Annual Report 2005 has been made available to shareholders and can be found on the company's website ([www.csr.com.au](http://www.csr.com.au)) under *Investors*. During this item, there will be an opportunity for shareholders at the meeting to comment on and ask questions about CSR's management, operations, financial position, business strategies and prospects.

The directors recommend that shareholders vote in favour of item 1.

### **2. ADOPT THE REMUNERATION REPORT FOR YEAR ENDED 31 MARCH 2005**

During this item, there will be an opportunity for shareholders at the meeting to comment on and ask questions about the remuneration report which commences on page 36 of the CSR Annual Report 2005, including the remuneration tables referred to in the report and set out in note 26 to the financial statements commencing on page 54.

The vote on the proposed resolution in item 2 is advisory only and will not bind the directors or the company, however, the board will take the outcome of the vote into consideration when reviewing remuneration practices and policies.

The directors recommend that shareholders vote in favour of item 2.

### **3. ELECT DIRECTORS**

Two new directors – Kathleen Conlon and Richard Lee – were appointed during the past six months. This followed an assessment by the CSR board's Remuneration and Nominations Committee, with assistance from an external consultant, of the skills, experience and knowledge required on the board after the retirements of John Wylie (31 March 2005) and Carolyn Hewson (at the close of the annual general meeting). Each of the new directors will stand for election at the meeting in accordance with clause 53.2 of the company's constitution.

The board is confident that the contributions of both Kathleen and Richard ensure that the board continues to operate cohesively and with independence of thought and judgment.

Information about the two directors who have nominated for election:

#### **Kathleen Conlon**

BA(Econ)(Dist), MBA, age 41.

Joined the board in December 2004, as an independent director, after seven years as a partner and director of the Boston Consulting Group (BCG) where she led BCG's Asia Pacific Operational Effectiveness Practice Area and was previously the leader of the Sydney office. Kathleen brings to the CSR board over 20 years' experience in professional consulting having advised many of Australia's leading industrial companies. She is a council member of Chief Executive Women. Resides in Sydney.

#### **Richard Lee**

BEng(Chem)(Hons), MA(Oxon), age 55.

Joined the board in May 2005. An independent director, Richard has 19 years' experience in investment banking and the finance industry. He is a former chief executive officer of N M Rothschild Australia Group where he developed the bank's metal financing activities and broadened the business extensively into new growth sectors and services. Prior to his investment banking career, Richard held a number of senior roles in CSR's Sugar Division. Richard has been the chairman of Salmat Limited for three years and a director of Ridley Corporation Limited for four years. A Rhodes Scholar, he is a fellow and NSW council member of the Australian Institute of Company Directors, a founding council member of the Institute of Neuromuscular Research and a director of the North Shore Heart Research Foundation. Resides in Sydney.

The directors (in each case excluding the relevant director) recommend that shareholders vote in favour of items 3a and 3b.

#### 4. RETURN OF CAPITAL

##### The proposal

The company proposes to make a cash payment to shareholders of \$0.20 per share or \$182 million in total as a return of capital.

The rules relating to a return of capital are in Chapter 2J of the Corporations Act 2001 where it is described as a *reduction of capital*.

The proposed payment is an *equal reduction of capital*, as defined in section 256B(2) of the Corporations Act 2001. It relates only to ordinary shares; applies to each holder of ordinary shares in proportion to the number of ordinary shares they hold; and the terms of the reduction are the same for each holder of ordinary shares.

The date for determining entitlements to receive the return of capital is the record date (7.00 pm on 21 July 2005), set in accordance with the Australian Stock Exchange listing rules.

The return of capital, if approved by shareholders, will be paid, or cheques will be despatched, on 4 August 2005. The final dividend for the year ended 31 March 2005 will be paid, or cheques will be despatched, on 4 July 2005, irrespective of whether the return of capital proceeds.

##### Funding of the proposal

The return of capital will be funded by drawing down existing borrowing facilities.

##### Reasons for the proposal

The purpose of the return of capital to shareholders is to achieve a one-off structural alteration to the company's gearing and share capital, which was established upon demerger of Rinker Group Limited from CSR Limited in March 2003.

At 31 March 2003, CSR's book value of equity including share capital was \$1,080 million. Its gearing (net debt divided by equity plus net debt) of 16.4% was low but considered prudent as the demerger was expected to reduce CSR to around 30% of the pre-demerger group of companies (based on pre-tax profits and revenues). Further, following the demerger the company's growth options and its short to medium-term capital expenditure and other cash requirements were, at that time, subject to review by a new board.

In the two years since the demerger, strategies for each of CSR's businesses have been confirmed and the company's capital expenditure requirements have been largely funded by strong operating cash flows. Given current circumstances, it is the view of CSR directors that CSR's gearing of 16.5% at 31 March 2005 is too low.

The directors intend to continue the policy of paying a significant proportion of sustainable profit as dividends, subject to available franking credits. The directors believe that it is important to retain a buffer of retained earnings in view of the company's mix of cyclical businesses and the move to international accounting standards, which impose more stringent recoverability tests for assets and are generally expected to require more frequent asset write downs.

By drawing down existing borrowing facilities to return \$182 million of capital to shareholders, gearing would be re-set as shown in the table. The directors believe that the return of capital will give the company a more efficient capital structure appropriate to CSR's range of businesses and liabilities, and provides adequate flexibility for future growth.

##### Alternatives considered

CSR has been operating an on-market buyback of its shares since June 2003 to achieve the same type of adjustment to the balance sheet. A buyback differs from a return of capital in that:

- Under a buyback, there are limits on the number of shares that can be purchased each day so that it generally takes much longer to implement. CSR has spent around \$72 million buying back shares over the past two years.
- A buyback reduces the number of shares on issue, as shares purchased on behalf of the company are subsequently cancelled, increasing the earnings per share.

CSR's most recent on-market buyback expired on 10 June 2005 and has not been renewed, however it is open to the directors to consider a further buyback in future if thought appropriate.

##### Approvals required

Under section 256B(1) of the Corporations Act 2001, a company may reduce its share capital if the reduction:

1. is fair and reasonable to the company's shareholders as a whole
2. does not materially prejudice the company's ability to pay its creditors
3. is approved by shareholders under section 256C.

Commenting on each of these conditions in turn:

1. The directors consider that the return of capital is fair and reasonable to shareholders as a whole because it will apply to all shareholders equally having regard to the number of shares in the company held by each of them on the record date.
2. The directors have carefully reviewed the company's assets and liabilities, including contingent liabilities, and believe that the return of capital will not materially prejudice the company's ability to pay its creditors. Disclosure on CSR's material actual

and contingent liabilities is included in the CSR Annual Report 2005, distributed with this notice of meeting (unless otherwise requested by individual shareholders) and available on CSR's internet site.

3. By way of the proposed resolution in item 4, CSR is seeking the approval of shareholders as required under section 256C.

In accordance with section 256C(5) of the Corporations Act, copies of the notice of meeting, including these explanatory notes, have been lodged with the Australian Securities and Investments Commission.

##### Effect on the company

At the date of this notice, the company has 910,372,515 fully paid ordinary shares on issue. CSR has no options or convertible instruments on issue. After the return of capital, CSR's book value of contributed equity, or share capital, will be reduced by approximately \$182 million. The number of shares on issue will not change as a result of the return of capital.

The impact of the return of capital on CSR's financial position based on the statement of financial position as at 31 March 2005 is summarised in the following table.

| \$ MILLION UNLESS STATED                   | 31 MARCH 2005 AS REPORTED | RETURN OF CAPITAL TRANSACTION | AFTER RETURN OF CAPITAL |
|--|---------------------------|-------------------------------|-------------------------|
| Total equity                               | 1,367.9                   | -182.1                        | 1,185.8                 |
| Net debt                                   | 270.1                     | +182.1                        | 452.2                   |
| Funds employed                             | 1,638.0                   |                               | 1,638.0                 |
| Gearing (net debt / net debt + equity) [%] | 16.5                      |                               | 27.6                    |

Interest expense after tax will increase by approximately \$8 million per year. Interest cover (earnings before interest, tax, depreciation and amortisation divided by interest expense) is expected to remain at levels within CSR's investment grade rating.

CSR's return on equity is expected to increase as a result of the return of capital. Had the return of capital occurred at the beginning of the last financial year, the return on equity (net profit divided by year-end equity) for the year ended 31 March 2005 would have been two percentage points higher.

The directors consider that the return of capital will not adversely affect the company's existing businesses, growth plans or its ability to pay dividends to shareholders.

The return of capital will have no income tax implications for the company.

##### Should CSR retain the cash?

Rather than return capital to shareholders, should CSR retain the cash or invest it now or in the future on growth projects? The directors believe that the return of capital does not preclude future growth, which may be funded from operating cash flows and existing borrowing facilities or, if the directors consider it necessary and appropriate, the company may seek to raise additional equity.

## Tax implications for shareholders

Each shareholder should obtain specific taxation advice on the treatment of the return of capital, taking into account their particular circumstances.

The company understands that the Australian Taxation Office will issue a class ruling for CSR shareholders confirming that:

- for shareholders who own their shares in CSR on capital account, receipt of the return of capital will not be subject to tax
- the cost base of each share acquired after 19 September 1985 will be reduced by \$0.20 for the purpose of calculating any capital gain or loss on ultimate disposal of that share
- no part of the \$0.20 per share return of capital will be deemed to be a taxable dividend
- for non-resident shareholders, receipt of the return of capital will generally not result in a liability for Australian capital gains tax if they or their associates have not, in the five years preceding the return of capital, beneficially owned at least 10% (by value) of the shares in the company.

Latest information on the Australian Tax Office class ruling will be posted on the company's internet site as it is received and will also be communicated to shareholders at the company's annual general meeting on 14 July 2005.

## Impact on CSR employee share plan participants

For participants in the CSR employee share plans, including CSR directors, receipt of the return of capital will not be subject to tax. Participants in the Cash Award Share Plan (CSR's long-term incentive plan) receive the benefit of any dividend or return of capital in respect of shares purchased for them under the plan whether or not they ultimately become entitled to those shares.

## Timetable and method of payment

### Thursday 14 July 2005

Annual general meeting considers return of capital, and, if approved:

### Friday 15 July 2005

CSR shares commence trading on *ex return of capital* basis

### Thursday 21 July 2005

Record date for determining entitlements to participate in return of capital

### Thursday 4 August 2005

Despatch of payment

The payment methods selected by shareholders for the payment of dividends will also apply to the return of capital. Shareholders, who have not already done so, can arrange to have such payments made directly into a bank, building society or credit union account

in Australia by contacting Computershare on 1800 676 061 (within Australia) or +61 3 9415 4033 (outside Australia).

## Directors' recommendation and interests

The directors of the company unanimously recommend that shareholders vote in favour of the resolution to approve the return of capital.

No director will receive any benefit or payment as a consequence of the proposed return of capital other than in their capacity as a CSR shareholder. The number of CSR shares in which each of the CSR directors holds an interest as at the date of this notice of meeting is:

|                 |           |
|-----------------|-----------|
| Ian Blackburne  | 103,458   |
| Alec Brennan    | 2,218,508 |
| Kathleen Conlon | 2,000     |
| Carolyn Hewson  | 50,800    |
| Barry Jackson   | 57,903    |
| Richard Lee     | 23,000    |
| John Story      | 46,715    |

The directors believe that this notice of meeting contains all information known to the company which is material to the shareholders' decision as to how to vote on the proposed return of capital.

## 5. INCREASE MAXIMUM AGGREGATE REMUNERATION OF NON-EXECUTIVE DIRECTORS

The maximum aggregate sum (or cap) for the remuneration of non-executive directors is currently \$750,000. This cap was approved by shareholders six years ago. It covers directors' fees only. Neither compulsory company superannuation contributions nor retirement allowances are currently included in calculating the maximum that can be paid to non-executive directors.

The board has decided that superannuation contributions (currently 9% of directors' fees) will be included in calculating the maximum amount that can be paid to non-executive directors for financial years beginning on or after 1 April 2005.

In accordance with the ASX Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendations, CSR decided in April 2003 to freeze retirement allowance entitlements. The remaining entitlements for our two longest serving directors total \$407,270.

The Remuneration and Nominations Committee recently examined independent remuneration surveys on the appropriate level of remuneration required to attract and retain directors with the necessary skills and experience for the CSR board. The committee took into account the scope of director responsibilities, the level of directors' fees being paid to directors of companies of comparable size and complexity, and the fact that no further retirement allowances will be paid to CSR directors.

Based on those surveys, subject to shareholder approval of the proposed resolution in item 5 and backdated to 1 April 2005, the base director's fee per year, including committee work, will be increased to \$110,000 (from \$97,000 including committee fees) and the chairman's fee will be increased to \$275,000 (from \$227,500) per year. These amounts exclude superannuation contributions. The chair of the Audit Committee will be paid an additional \$15,000 (previously \$6,000) per year and the chair of the Safety, Health and Environment Committee \$6,000 (unchanged) per year. Total directors' fees and compulsory superannuation contributions are estimated to be \$822,000 for the year ending 31 March 2006, including the cost of an additional director during the recent transition periods.

Shareholder approval of a new maximum aggregate sum of \$1,150,000 per year (representing an increase of \$400,000 per year) is being sought to accommodate:

- this new fee structure for a full year
- flexibility in making changes to the board
- allowance for reasonable increases in fees over the next few years
- the inclusion of superannuation contributions under the cap.

Although the non-executive directors' remuneration consists solely of fees (and superannuation contributions), the board's policy is that directors should acquire a beneficial interest in CSR shares equivalent in value to one year's directors' fees, and that each non-executive director is expected to sacrifice a minimum of 25% of their directors' fees to buy CSR shares until that goal is achieved.

Shareholders are being asked to approve the proposed resolution in item 5 for the purposes of clause 57.1 of the company's constitution and ASX Listing Rule 10.17.

As each of the directors has a personal interest in the proposed resolution in item 5, the directors decline to make any recommendation as to how shareholders should vote on this resolution.



GRAHAM HUGHES  
Company Secretary

10 June 2005