

# Notice of General Meeting

## CSR Limited

(ABN 90 000 001 276)

### ▶▶ INVITATION

Dear Shareholder,

I am delighted to invite you to attend a General Meeting of CSR shareholders to be held at 10.00 am on 8 February 2011 at Wesley Centre, 220 Pitt Street, Sydney NSW 2000.

The primary reason for the meeting is for shareholders to approve a return of funds to CSR shareholders.

As a result of CSR's 2009 entitlement offer, and the recent sales of Sucrogen and of CSR's Asian business, your Directors consider that CSR has surplus capital which they believe should be returned to shareholders.

A special dividend of \$138.6 million (\$0.0913 per fully paid ordinary share) has separately been announced, with a record date of 18 January 2011.

CSR is additionally proposing to return \$661.4 million to shareholders by way of a cash payment of \$0.4357 per fully paid ordinary share as a return of capital. The date for determining entitlements to the capital return is the record date of 16 February 2011.

The special dividend and the proposed capital return together represent a total return of funds to shareholders of \$800 million. Your Directors believe that returning this amount will leave CSR capitalised to grow its business whilst also taking into account the interests of all stakeholders.

Shareholder approval is required for the capital return and this approval will be sought at the General Meeting.

Shareholder approval is also sought for two other resolutions – a consolidation of CSR shares by converting every three CSR fully paid ordinary shares into one fully paid ordinary share and approval of an adjustment to the CSR Performance Rights Plan in light of the proposed capital return.

The Notice of Meeting in the following pages provides further details on these resolutions and I urge you to read the contents carefully.

Your Directors unanimously recommend that shareholders vote in favour of all resolutions. Each Director intends to vote all CSR shares held or controlled by him or her in favour of all the resolutions proposed.

If you have any questions about these matters you can call our shareholder information line on 1300 708 206.

I look forward to seeing you at the General Meeting.

Yours sincerely,



Ian Blackburne  
Chairman

## NOTICE OF GENERAL MEETING

Notice is given that a general meeting of shareholders of CSR Limited (**CSR**) will be held at Wesley Centre, 220 Pitt Street, Sydney NSW 2000 on 8 February 2011 at 10:00 am.

The meeting will be webcast live on CSR's internet site, [www.csr.com.au](http://www.csr.com.au).

### AGENDA

#### 1. Return of capital to shareholders

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

*'That, for the purposes of Part 2J.1 of the Corporations Act 2001 (Cth), and for all other purposes, approval is given for the share capital of CSR to be reduced by \$661.4 million, such reduction of capital to be effected by CSR paying to each registered holder of fully paid ordinary shares in CSR as at 7:00 pm on 16 February 2011 the amount of \$0.4357 per fully paid ordinary share in CSR held by that holder as at that time.'*

#### 2. Consolidation of shares

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

*'That, subject to and conditional upon the passing of Resolution 1 (return of capital), with effect on and from 3 March 2011 the share capital of CSR will be consolidated through the conversion of every three fully paid ordinary shares in CSR into one fully paid ordinary share in CSR and that any resulting fractions of a share be rounded up to the next whole number of shares.'*

#### 3. Approval of adjustment of performance rights

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

*'That the amendment of the terms of all performance rights granted under the CSR Performance Rights Plan in the manner set out in the Explanatory Notes accompanying this Notice of Meeting be approved.'*

### DETERMINATION OF ENTITLEMENT TO ATTEND AND VOTE

Shareholders entered on the register of members of CSR as at 7:00 pm on 6 February 2011 will be entitled to attend and vote at the general meeting.

### PROXIES

- ♦ If you are a shareholder entitled to attend and vote, you are entitled to appoint one or two proxies. Each proxy has the right to vote on any poll and also to speak at the general meeting. The appointment of a proxy may specify the proportion or the number of votes that the proxy may exercise. Each proxy may exercise half of the votes if more than one proxy is appointed and the appointment does not specify the proportion of or number of the shareholder's votes that each proxy may exercise. A proxy does not need to be a CSR shareholder.
- ♦ CSR's constitution (available on CSR's internet site [www.csr.com.au](http://www.csr.com.au) under Investors/Corporate governance) 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 CSR shareholder or is also a proxy for another CSR 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 the internet address (below) of Computershare Investor Services Pty Limited (**CSR's Registry**), by following the instructions set out on the internet site. Shareholders who elected to receive their notice of meeting and proxy electronically will have received an email with a link to the internet site of CSR's Registry.
- ♦ To be effective, proxy forms must be received by no later than 7:00 pm on 6 February 2011. Proxy forms received after this time will be invalid.
- ♦ Completed proxy forms should be sent to CSR's Registry by:
  - mailing them to GPO Box 242, Melbourne VIC 3001 (using the reply paid envelope provided);
  - faxing them to 1800 783 447 (within Australia) or +61 3 9473 2555 (outside Australia); or
  - lodging them electronically at [www.investorvote.com.au](http://www.investorvote.com.au). You will need a specific six digit Control Number to lodge online. That number is located on the front of your proxy form.

You can arrange to receive shareholder information electronically, or obtain a replacement proxy form to appoint a second proxy, by contacting CSR's Registry 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 general meeting and not appointing a proxy are asked to bring your Proxy Form (if you still have one) to the general meeting to help speed admission.

If you do not plan to attend the general meeting, you are encouraged to complete and return a proxy form or lodge a proxy form online for your holding of CSR shares.

### VOTING EXCLUSION STATEMENT

CSR will disregard any votes cast on the proposed resolution in agenda item 3 by a person who holds a performance right that is the subject of the approval and any of their associates.

However, CSR need 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); or
- ♦ the chairman 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.

## **EXPLANATORY NOTES**

### **1 RESOLUTION 1 – RETURN OF CAPITAL TO SHAREHOLDERS**

#### **1.1 PROPOSED RETURN OF CAPITAL**

##### **(a) Return of capital**

CSR proposes to make a cash payment to shareholders of \$0.4357 per fully paid ordinary share (representing \$661.4 million in total) as a return of capital.

The record date for determining entitlements to receive the return of capital is 7.00 pm on 16 February 2011.

##### **(b) Payment details**

If the return of capital is approved by shareholders, cheques will be despatched (or, in the case of shareholders who have elected to have payments made directly into a nominated bank, building society or credit union account – payment will be made) to entitled shareholders, being registered holders of CSR shares at the record date referred to above.

Any fraction of a cent payable to any shareholder in respect of the shareholder's aggregate holding of CSR shares will be rounded to the nearest whole cent.

CSR shareholders who wish to can arrange to have the return of capital paid directly into a bank, building society or credit union account in Australia by contacting CSR's Registry on 1800 676 061 (within Australia) or +61 3 9415 4033 (outside Australia) before the record date of 16 February 2011.

##### **(c) Tax treatment**

Refer to section 1.7 below for information about the tax implications of the capital return for CSR shareholders.

##### **(d) Special dividend**

CSR has announced a special dividend of \$138.6 million (\$0.0913 per fully paid ordinary share). The special dividend is not subject to shareholder approval and the record date for determining entitlements to receive the special dividend is 7.00 pm on 18 January 2011.

#### **1.2 REASONS FOR THE RETURN OF CAPITAL**

##### **(a) General rationale**

As a result of CSR's 2009 entitlement offer, and the recent sales of Sucrogen and of CSR's Asian business, CSR's directors consider that CSR has capital that is surplus to requirements and should be returned to shareholders.

The directors believe that, in addition to the announced special dividend of \$138.6 million, a further \$661.4 million of capital can prudently be returned by way of return of capital (giving an aggregate return of funds to shareholders of \$800 million).

The directors believe that returning this amount will leave CSR capitalised to grow its business whilst taking account of the interests of all stakeholders including current and reasonably foreseeable future asbestos related claimants. CSR remains committed to pursuing future growth and maximising sustainable returns to shareholders.

##### **(b) Further information about recent transactions**

###### **Capital raising for demerger**

In late 2009, CSR raised \$375 million through an entitlement offer for the purposes of optimising the company's capital structure in anticipation of the then proposed demerger of Sucrogen. As the demerger is no longer proceeding, CSR's directors consider it appropriate to return to shareholders the net amount raised.

###### **Sale of Sucrogen**

On 5 July 2010, CSR announced that it had agreed to sell its Sugar and Renewable Energy business, Sucrogen, to Wilmar International Limited (**Wilmar**). The sale was completed on 22 December 2010.

Wilmar has paid CSR a completion payment of \$1.84 billion, with net proceeds after tax and sale expenses expected to be approximately \$1.71 billion.

###### **Sale of Asian business**

CSR also announced in July 2010 that it had entered into an agreement to sell its insulation, panels and trading businesses across the Asian region to the Rockwool Group for a consideration of \$128 million. Completion of this sale occurred on 22 December 2010. Net proceeds after tax and sale expenses are approximately \$118 million.

#### **1.3 REQUIREMENTS FOR THE RETURN OF CAPITAL**

##### **(a) Equal reduction**

The proposed return of capital constitutes an equal reduction of CSR's share capital for the purposes of the *Corporations Act 2001* (Cth) (the **Corporations Act**).

This is because it relates only to ordinary shares, it applies to each holder of ordinary shares in proportion to the number of shares they hold, and the terms of the reduction are the same for each holder of ordinary shares.



## (b) Statutory requirements

Under the Corporations Act, a company can reduce its share capital if the reduction satisfies three key requirements. Each requirement is set out below, together with a description of how that requirement is met in relation to the proposed return of capital.

| REQUIREMENT  | HOW THE REQUIREMENT IS SATISFIED   |
|--|--|
| <b>The reduction must be fair and reasonable to the company's shareholders as a whole</b>        | CSR's directors consider that the return of capital is fair and reasonable to CSR's shareholders as a whole. All shareholders will be treated in the same manner in terms of the proportion of the share capital of the company being returned.  |
| <b>The reduction must not materially prejudice the company's ability to pay its creditors</b>    | CSR's directors have carefully reviewed CSR's assets, liabilities and expected cashflows, and believe that the return of capital will not materially prejudice CSR's ability to pay its creditors. In conducting that review CSR directors have considered reasonably foreseeable classes of future asbestos claimants in the analysis of creditor claims. CSR's directors have also satisfied themselves as to the solvency of the company following the return of capital.<br><br>See section 1.6 below for further information. |
| <b>The reduction must be approved by shareholders under section 256C of the Corporations Act</b> | This requirement is the reason shareholder approval is being sought. In the context of an equal reduction of capital (as described in 1.3(a) above), the reduction must be approved by ordinary resolution of CSR shareholders.<br><br>In accordance with section 256C(5) of the Corporations Act, a copy of this Notice of General Meeting has been lodged with the Australian Securities and Investments Commission.   |

## 1.4 EFFECT OF THE RETURN OF CAPITAL ON CSR

### (a) Effect on capital structure

After the return of capital, CSR's share capital will be reduced by approximately \$661.4 million (subject to rounding).

No shares will be cancelled in connection with the return of capital. Accordingly, the return of capital will not affect the number of shares held by each CSR shareholder, nor will it affect the control of CSR.

CSR is, however, separately proposing a consolidation of share capital which will affect the number of shares held by each CSR shareholder (but will not affect control of the company). See section 2 below for further information. For the avoidance of doubt, entitlements under the proposed capital return (and under the special dividend) will be calculated based on CSR's pre-consolidation share capital.

### (b) Impact on growth strategies

In view of the financial position of CSR, the operating profits of CSR's existing businesses, and CSR's capacity to raise additional finance if required, in the opinion of the CSR Board the return of capital, taken together with the special dividend, will not materially impact CSR's ability to fund new investment in its core businesses and other development and expansion initiatives.

The CSR Board believes that the proposed capital return and special dividend will leave CSR capitalised to grow its business whilst also taking into account the interests of all stakeholders, including current and reasonably foreseeable future asbestos related claimants.

### (c) Share price impact

If the proposed return of capital is implemented, CSR shares may trade at a lower share price following the 'ex' date for the return of capital than they would have done had the return of capital not been made. This is due to the outflow of funds to shareholders.

Shareholders should note that CSR is also proposing a consolidation of share capital through the conversion of every three CSR ordinary shares into one CSR ordinary share. If approved, the share consolidation can be expected to result in an increase in CSR's share price proportional to the consolidation. See section 2 below for more details.

### (d) Impact on financial position of CSR

As a guide to assist shareholders, CSR has prepared the pro forma balance sheet set out in section 1.5 below.

On a pro forma basis (as if the sales of Sucrogen and the Asian business had been completed, and the special dividend and capital return paid, on 30 September 2010), CSR would have had net cash of over \$75 million as at 30 September 2010 and net assets of \$1,499.6 million. This net asset position includes a provision of \$441.8 million for all known and reasonably foreseeable future asbestos related claims.

### (e) Credit rating and dividends

It is the intention of the Board to maintain a capital structure that is consistent with an investment grade credit rating for the foreseeable future.

CSR's current policy is to pay out as dividends approximately 60-80% of net profit after tax before significant items. For so long as CSR remains relatively ungeared, it would be the intention of the Board to target a dividend payout ratio towards the top of the 60-80% range.

**(f) Tax implications for CSR**

No adverse tax consequences are expected to arise for CSR from the capital return.

**1.5 PRO FORMA BALANCE SHEET**

**(a) Basis of preparation**

The pro forma balance sheet below includes the financial information of CSR together with the entities which will be controlled by CSR following the sale of Sucrogen and of CSR's Asian business (**Separation Transactions**) and the subsequent special dividend and capital return (**Capital Repatriation**).

The pro forma balance sheet has been derived from the reviewed financial statements of CSR for the half-year ended 30 September 2010, and reflects the position as if the Separation Transactions (and the Capital Repatriation) were completed on that date. As a result the actual impact of the Separation Transactions may differ.

The CSR financial report for the half-year ended 30 September 2010 was reviewed in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity* and the review statement issued to the members of CSR relating to the half-year financial report was unqualified.

The pro forma balance sheet has been prepared:

- ♦ based on the significant accounting policies disclosed in the annual financial report of CSR Limited for the year ended 31 March 2010; and
- ♦ by applying relevant pro forma adjustments described in this section to the historical consolidated balance sheet of CSR as at 30 September 2010.

The pro forma balance sheet is presented in abbreviated form and does not contain all the disclosures that are usually provided in an annual report prepared in accordance with Australian Accounting Standards and the Corporations Act.

**(b) CSR historical and pro forma historical balance sheet**

The following table sets out the CSR historical and pro forma balance sheet as at 30 September 2010. For the purposes of presenting the CSR pro forma balance sheet, it has been assumed that the Separation Transactions and Capital Repatriation described above were completed on 30 September 2010.

| <b>\$M (UNLESS INDICATED)</b>                             | <b>TOTAL CSR GROUP</b>   | <b>SEPARATION</b>   | <b>CAPITAL</b>      | <b>SHARE</b>         | <b>PRO FORMA</b>         |
|---|--------------------------|---------------------|---------------------|----------------------|--------------------------|
|   | <b>30 September 2010</b> | <b>TRANSACTIONS</b> | <b>REPATRIATION</b> | <b>CONSOLIDATION</b> | <b>30 September 2010</b> |
|   |                          | <b>(1), (2)</b>     | <b>(3)</b>          | <b>(4)</b>           |                          |
| <b>CURRENT ASSETS</b>                                     |                          |                     |                     |                      |                          |
| Cash and cash equivalents                                 | 21.4                     | 858.1               | (800.0)             | -                    | 79.5                     |
| Other current assets                                      | 716.7                    | 4.4                 | -                   | -                    | 721.1                    |
| Assets classified as held for sale                        | 1,725.1                  | (1,725.1)           | -                   | -                    | -                        |
| <b>Total Current Assets</b>                               | <b>2,463.2</b>           | <b>(862.6)</b>      | <b>(800.0)</b>      | -                    | <b>800.6</b>             |
| <b>Total Non-current Assets</b>                           | <b>1,637.5</b>           | <b>(39.6)</b>       | -                   | -                    | <b>1,597.9</b>           |
| <b>Total Assets</b>                                       | <b>4,100.7</b>           | <b>(902.2)</b>      | <b>(800.0)</b>      | -                    | <b>2,398.5</b>           |
| <b>CURRENT LIABILITIES</b>                                |                          |                     |                     |                      |                          |
| Borrowings  | 345.0                    | (343.2)             | -                   | -                    | 1.8                      |
| Other current liabilities                                 | 408.8                    | (17.9)              | -                   | -                    | 390.9                    |
| Liabilities classified as held for sale                   | 447.6                    | (447.6)             | -                   | -                    | -                        |
| <b>Total Current Liabilities</b>                          | <b>1,201.4</b>           | <b>(808.7)</b>      | -                   | -                    | <b>392.7</b>             |
| <b>NON-CURRENT LIABILITIES</b>                            |                          |                     |                     |                      |                          |
| Borrowings  | 612.4                    | (610.4)             | -                   | -                    | 2.0                      |
| Other non-current liabilities                             | 504.2                    | -                   | -                   | -                    | 504.2                    |
| <b>Non-current liabilities</b>                            | <b>1,116.6</b>           | -                   | -                   | -                    | <b>506.2</b>             |
| <b>Total Liabilities</b>                                  | <b>2,318.0</b>           | <b>(1,419.1)</b>    | -                   | -                    | <b>898.9</b>             |
| <b>Net assets</b>   | <b>1,782.7</b>           | <b>516.9</b>        | <b>(800.0)</b>      | -                    | <b>1,499.6</b>           |
| <b>EQUITY</b>   |                          |                     |                     |                      |                          |
| Issued capital  | 1,703.5                  | -                   | (661.4)             | -                    | 1,042.1                  |
| Reserves  | 23.6                     | 2.8                 | -                   | -                    | 26.4                     |
| Retained profits  | (83.9)                   | 586.0               | (138.6)             | -                    | 363.5                    |
| Equity classified as held for sale                        | (14.4)                   | 14.4                | -                   | -                    | -                        |
| <b>Total equity attributable to equity holders of CSR</b> | <b>1,628.8</b>           | <b>603.2</b>        | <b>(800.0)</b>      | -                    | <b>1,432.0</b>           |
| Minority interest – continuing                            | 67.6                     | -                   | -                   | -                    | 67.6                     |
| Minority interest - discontinuing                         | 86.3                     | (86.3)              | -                   | -                    | -                        |
| <b>Total equity</b>                                       | <b>1,782.7</b>           | <b>516.9</b>        | <b>(800.0)</b>      | -                    | <b>1,499.6</b>           |
| <b>Shares on issue (number)</b>                           | <b>1,517.9</b>           | -                   | -                   | <b>(1,011.9)</b>     | <b>506.0</b>             |



**Notes:**

(1) The separation of the Sucrogen and Asian businesses represents:

- ♦ sale of Sucrogen to Wilmar International Limited for proceeds of \$1,830 million, comprising payment for shares of \$1,347 million and settlement of intercompany balances of \$484 million;
- ♦ sale of the Asian insulation businesses to Rockwool Group for proceeds of \$128 million;
- ♦ payment of capital gains tax liabilities, which includes the utilisation of carry forward tax losses;
- ♦ payment of transaction costs of \$52.3 million of which \$16.6 million was accrued at 30 September 2010 (and an associated deferred tax benefit of \$7.7 million);
- ♦ in accordance with the documentation in respect of the Sucrogen transaction, CSR is indemnified for workers compensation liabilities relating to the Sucrogen business. A receivable of \$12.2 million has been recognised for this amount, based on Sucrogen's share of the actuarially assessed liability as at 30 September 2010;
- ♦ in accordance with the documentation in respect of the Sucrogen transaction, CSR is indemnified for 60% of payments made to the defined benefit plan liability of the Harwood Superannuation Fund (CSR division). CSR has therefore recognised a receivable for \$22.2 million being 60% of the deficit in that fund as at 30 September 2010;

(2) The repayment of \$953.6 million current and non-current borrowings.

(3) The return to CSR shareholders of \$800 million, paid by way of a special dividend of \$138.6 million and a capital return of \$661.4 million.

(4) Consolidation of three CSR fully paid ordinary shares into one fully paid ordinary share.

## 1.6 ABILITY TO PAY CREDITORS NOT MATERIALLY PREJUDICED

### (a) General

CSR has undertaken significant work (including the commissioning of external advice, discussed below) to assess the impact of the special dividend and the return of capital on CSR's ability to pay its creditors, including current and reasonably foreseeable future asbestos claimants.

CSR has considered its financial position under a range of possible business and operating environments in order to assess CSR's capacity to meet the claims of all of its creditors, including current and reasonably foreseeable future asbestos claimants, following the return of capital and payment of the special dividend. This included 'stress testing' on a pro forma basis, based on CSR and independent expert views of reasonable worst case outcomes in relation to key drivers of CSR's cash flow, including residential housing commencements and Australian dollar aluminium pricing. In addition, consideration was also given to a range of other factors influencing CSR's earnings and cash flow, including the A\$/US\$ exchange rate (having regard to past experience and current market data) and a range of potential asbestos liabilities (see further below).

That review was undertaken by CSR management, a board due diligence committee and endorsed by the board, with the assistance of CSR's legal and financial advisers and experts.

The review concluded that, even in the reasonable worst case scenarios that were considered, CSR would have the capacity to meet the claims of its creditors, including future asbestos related liabilities, following the proposed return of capital and payment of the special dividend.

### (b) Asbestos liabilities – general

CSR Limited and/or certain subsidiaries were involved in mining asbestos and manufacturing and marketing products containing asbestos in Australia, and exporting asbestos to the United States. CSR's involvement in asbestos mining, and the manufacture of products containing asbestos, began in the early 1940s and ceased with the disposition of the Wunderlich asbestos cement business in 1977. As a result of these activities, CSR has been named as a defendant in litigation in Australia and the United States.

In Australia, asbestos related personal injury claims have been made by employees and ex-employees of CSR, by others such as contractors and transporters and by users of products containing asbestos. As at 30 September 2010, there were 622 such claims pending. In the United States, claims are made by people who allege exposure to asbestos fibre used in the manufacture of products containing asbestos or in the installation or use of those products. As at 30 September 2010, there were 1,084 such claims pending.

For more than 20 years, CSR has consistently and responsibly met asbestos liabilities. CSR has undertaken a rigorous assessment of its future financial capacity to satisfy its asbestos related liabilities. CSR's directors believe that the return of capital and payment of the special dividend will not materially prejudice CSR's ability to pay its creditors, including current and reasonably foreseeable future asbestos claimants.

### (c) Product liability provision

The inherent nature of asbestos related liabilities is such that they are long term and difficult to quantify.

CSR includes in its financial statements a product liability provision for all known claims and reasonably foreseeable future asbestos related claims. In determining the product liability provision, CSR commissions advice from external experts in relation to the future incidence and value of asbestos related claims in each of the United States and Australia. The expert advice is updated every six months and the provision reviewed and adjusted by the CSR Board to reflect any material change in the estimate of CSR's known and anticipated liabilities, as well as material fluctuations in exchange rates and interest rates.

Having regard to the extremely long tailed nature of the liabilities and the long latency period of disease manifestation from exposure, the estimation of future asbestos liabilities is subject to significant complexity. Many factors are relevant to the independent experts' estimates of future asbestos liabilities, including expected future claims numbers and expected value of claims, the presence of other defendants in litigation or claims involving CSR, the impact of and developments in the litigation and settlement environment in each of Australia and the United States, estimations of legal costs, expected claims inflation and the discount rate applied to future payments.

There are also a number of assumptions and limitations that impact on the assessments made by CSR's experts, including the following:

- ◆ assumptions used in the modelling are based on the various considerations referred to above;
- ◆ the future costs of asbestos related liabilities are inherently uncertain;
- ◆ uncertainties as to future interest rates and inflation;
- ◆ the analysis is supplemented by various academic material on the epidemiology of asbestos related diseases that is considered by the experts to be authoritative;
- ◆ the analysis is limited to liability in the respective jurisdictions of Australia and the United States that are the subject of the analysis of that expert and to the asbestos related diseases that are currently compensated in those jurisdictions. To date the only material claims received by CSR have been brought in Australia and the United States and CSR's directors are not aware of any reason to expect material liability in other jurisdictions in the future; and
- ◆ the effect of possible events that have not yet occurred which are currently impossible to quantify, such as medical and epidemiological developments in the future in treating asbestos diseases, future court and jury decisions on asbestos liabilities, and legislative changes affecting liability for asbestos diseases.

The provision accordingly includes a prudential margin determined by the CSR directors at the relevant balance date, having regard to the prevailing litigation environment, any material uncertainties that may affect future liabilities and the applicable long term Australian dollar to United States dollar exchange rate. However, given the complexity involved in estimating future asbestos liabilities, there can of course be no certainty that the product liability provision as at any balance date will definitively estimate CSR's future asbestos liabilities.

As at 30 September 2010, CSR included in its accounts a product liability provision of \$441.8 million for all known claims and reasonably foreseeable future asbestos-related claims. CSR's directors have included a prudential margin in this provision of \$93.1 million (26.7%) above the aggregate most likely estimate of the future asbestos liabilities in Australia and the United States, as determined by CSR's Australian and United States experts respectively. CSR's directors anticipate that the prudential margin included in future provisions will continue to fluctuate within a range approximating 10% to 30% depending on the prevailing circumstances at each balance date.

Shareholders are referred to CSR's financial statements for the year ended 31 March 2010 (and in particular note 36 to those financial statements) and to CSR's financial statements for the half year ended 30 September 2010 (and in particular note 11 to those financial statements) for additional discussion around CSR's recent asbestos claims experience, the basis of CSR's product liability provision, and details of the amount of the provision adopted during recent financial years.

CSR's directors are not aware of any changes in circumstance since the determination of the most recent product liability provision of \$441.8 million (ie as at 30 September 2010) that would cause them to materially revise this provision.

**(d) Asbestos liabilities – additional work in the context of the proposed return of funds to shareholders**

In addition to the work done in determining the product liability provision in CSR's most recent financial statements, the testing of CSR's financial position in relation to the proposed capital return and the special dividend has included scenario testing of asbestos related liabilities under a range of possible business and operating environments, including reasonable worst case scenarios.

CSR also considered and obtained expert advice in relation to more extreme scenarios suggested at the time of CSR's proposed demerger of the Sucrogen business. CSR does not consider these more extreme scenarios to represent business and operating environments reasonably likely to confront CSR. However, the analysis concluded that, even were those more extreme scenarios to occur, CSR would still have sufficient capacity to meet the claims of all of its creditors and future asbestos liabilities following the return of funds to shareholders.

As part of the review process, a further independent expert (Finity, an independent actuarial firm) was engaged to conduct a review of the advice of the external experts already engaged by CSR to estimate CSR's current and future asbestos liabilities in Australia and the United States (those existing experts having been engaged as part of the product liability provision procedure outlined in (c) above). This additional review confirmed that, in the expert's opinion, the scope of work, adequacy of data used, methodologies, analyses, assumptions, exercise of judgement and approach taken by each of the firms engaged by CSR to estimate current and future asbestos liabilities in Australia and United States are reasonable.

Finity's role was to review the reports of CSR's existing experts and form a view on the reasonableness of the approach taken. Finity did not independently prepare its own liability estimates, or check the calculations of the existing experts for factual correctness. Similarly, Finity was not asked to specify an appropriate funding level for CSR's asbestos related liabilities.



#### **(e) Process agreed with FIRB**

The sale of Sucrogen to Wilmar required approval from the Commonwealth Treasurer (via the Foreign Investment Review Board). As part of the approval process, and as further evidence of CSR's commitment to responsibly managing its asbestos related liabilities, CSR has put in place a process for the external oversight of any repatriation of capital by CSR to its shareholders during the period of 7 years following the sale of Sucrogen (subject to limited earlier termination provisions).

As part of this process, CSR has entered into an agreement with an independent body, The Trust Company (**TTC**), pursuant to which CSR must demonstrate that CSR has fulfilled certain requirements prior to any repatriation of funds to its shareholders other than half yearly or annual dividends paid by CSR in accordance with its usual practice and its dividend policy in force from time to time.

These requirements are consistent with CSR's responsible management of its asbestos related liabilities. These requirements include:

- ◆ that CSR's asbestos liabilities have been reviewed by an additional independent expert;
- ◆ that CSR intends to retain its 'investment grade' credit rating following any repatriation; and
- ◆ that a 'Big 4' accounting firm has expressed an opinion that the decision of CSR's directors that a particular repatriation of capital would not materially prejudice creditors, including current and reasonably foreseeable future asbestos claimants, was formed on a reasonable basis.

To comply with these requirements CSR had Finity opine that the approach taken by CSR's experts regarding the calculation of CSR's asbestos liabilities was reasonable and that the asbestos liability calculation had regard to all classes of creditors (refer to (d) above for further information about Finity's review).

CSR has also received an opinion from an independent 'Big 4' accounting firm that the Board's decision to resolve that the repatriation of \$800 million to shareholders would not materially prejudice CSR's ability to pay its creditors, including current and reasonably foreseeable future asbestos claimants, was formed on a reasonable basis. The accounting firm's work focussed on a review of the processes undertaken by the CSR Board in making its decision and an assessment of the reasonableness of those processes. It did not involve independent verification of the financial and other information on which the CSR Board's decision was based. Similarly, the accounting firm relied on the relevant third party reports in relation to asbestos liabilities and did not perform any independent work on forecast asbestos liabilities.

In accordance with the agreement with TTC, documentation has been provided by CSR to TTC to demonstrate that the above requirements have been fulfilled in relation to the special dividend and the proposed capital return.

#### **(f) Conclusion**

As a consequence of the matters referred to above, CSR's directors are satisfied that the return of capital together with payment of the special dividend will not materially prejudice CSR's ability to pay its creditors, including current and reasonably foreseeable future asbestos claimants.

### **1.7 TAX IMPLICATIONS FOR CSR SHAREHOLDERS**

*The summary in this section is general in nature. In addition, particular taxation implications will depend on the circumstances of each shareholder. Accordingly, shareholders are encouraged to seek their own professional advice in relation to their tax position. Neither CSR nor any of its officers, employees or advisers assumes any liability or responsibility for advising shareholders members about the tax consequences for them from the proposed capital return.*

#### **(a) Capital return**

CSR has received a draft Class Ruling from the Australian Taxation Office (**ATO**) confirming that:

- (1) no part of the proposed capital return will be treated as a dividend for tax purposes;
- (2) if the cost base (after adjustment, as may be relevant, for any indexation or any previous capital returns or demerger) of a CSR share acquired after 19 September 1985 is less than the capital return amount (on a cents per share basis) then an immediate capital gain may arise for the difference;
- (3) otherwise, the cost base for each CSR share acquired after 19 September 1985 will be reduced by the capital return amount (on a cents per share basis) for the purpose of calculating any capital gain or loss on the ultimate disposal of that share;
- (4) for those CSR shareholders who are not tax residents of Australia, no Australian capital gain or loss should arise as a consequence of the capital return.

The draft Class Ruling may not be relied on by CSR shareholders until it is issued in final form by the ATO. The final version of the Class Ruling will be published and notice will be included in the *Gazette*. CSR will display the final version of the Class Ruling on its website as soon as it becomes available.

#### **(b) Non residents**

Existing shareholders who are not residents of Australia for tax purposes should seek specific advice in relation to the taxation consequences arising from the return of capital under the laws of their country of residence.

### **1.8 NO INTERDEPENDENCY WITH RESOLUTION 2 OR 3 CONTAINED IN THIS NOTICE**

For the avoidance of doubt, if Resolution 1 (capital return) is passed by shareholders at the general meeting, the capital return will be undertaken regardless of whether Resolution 2 (consolidation) and/or Resolution 3 (adjustment to performance rights) is passed by shareholders.

However, the share consolidation contemplated by Resolution 2 will only proceed if Resolution 1 (capital return) is passed.



If Resolution 3 (adjustment of performance rights) is passed by shareholders, the amendment to the PRP rules contemplated by that resolution will be adopted regardless of whether Resolution 1 (capital return) and/or Resolution 2 (consolidation) is passed.

## 1.9 DIRECTORS' RECOMMENDATION

CSR's directors unanimously recommend that shareholders vote in favour of the proposed reduction of capital. Each Director intends to vote all CSR shares held or controlled by him or her in favour of the proposed reduction of capital.

## 1.10 DIRECTORS' INTERESTS

The number of shares in which each director has an interest as at the date of this Notice of General Meeting is set out in the table below.

| DIRECTOR               | NUMBER OF SHARES                            |
|------------------------|---|
| Ian Blackburne         | 307,607                                     |
| Nicholas Burton Taylor | 108,100                                     |
| Kathleen Conlon        | 85,113                                      |
| Ray Horsburgh          | 35,768                                      |
| Richard Lee            | 174,009                                     |
| John Story             | 185,825                                     |
| Jeremy Sutcliffe       | 74,312                                      |
| Rob Sindel             | 89,480<br>(Also 863,481 performance rights) |

## 1.11 NO OTHER MATERIAL INFORMATION

Other than as set out in this document, and other than information previously disclosed to CSR shareholders, there is no other information that is known to CSR's directors which may reasonably be expected to be material to the making of a decision by CSR shareholders whether or not to vote in favour of the capital reduction.

# 2 RESOLUTION 2 – CONSOLIDATION OF SHARES

## 2.1 THE PROPOSAL

### (a) General

CSR proposes to consolidate CSR's share capital through the conversion of every three CSR ordinary shares into one CSR ordinary share.

Under section 254H of the Corporations Act, a company may consolidate its shares if the consolidation is approved by an ordinary resolution of shareholders at a general meeting.

### (b) Timing

If the consolidation is approved, the consolidation will take effect on and from 3 March 2011.

For the avoidance of doubt, entitlements under the proposed capital return will be calculated based on CSR's pre-consolidation share capital.

### (c) Treatment of fractions

Where the consolidation of a shareholder's holding results in an entitlement to a fraction of a share, the fraction will be rounded up to the next whole number of shares.

## 2.2 REASONS FOR THE CONSOLIDATION

The aim of the share consolidation is to reflect the impact of the capital return and ensure that the number of shares on issue and trading price of CSR shares is at a level broadly comparable to CSR's peer group of companies.

## 2.3 EFFECT OF THE CONSOLIDATION

### (a) Summary

The proposed share consolidation will reduce the number of CSR ordinary shares on issue from approximately 1,518 million shares to approximately 506 million shares.

As the share consolidation applies equally to all CSR shareholders, individual shareholdings will be reduced in the same ratio as the total number of CSR shares (subject only to the rounding of fractions). It follows that the consolidation will have no material effect on the percentage interest of each individual CSR shareholder in CSR.

Similarly, the aggregate value of each CSR shareholder's holding (and CSR's market capitalisation) should not change – other than minor changes as a result of rounding - as a result of the share consolidation alone (that is, assuming no other market movements or impacts occur). However, the price per share can be expected to increase to reflect the reduced number of shares on issue (refer to section 1.4(c)).

Shareholders should note that the reduction of share capital, if approved, will also have an effect on CSR's share price.



## (b) Illustration – net asset backing per share

The following table is based on the pro forma balance sheet in section 1.5 above and is provided to assist shareholders understand the effect of the share consolidation. The consolidated pro forma net tangible assets (NTA) of \$1,340.0 million is the pro forma NTA at 30 September 2010 determined as if the Separation Transactions and the Capital Repatriation (in each case as defined in section 1.5(a)) were completed on that date.

|                           | NUMBER OF SHARES<br>ON ISSUE | CONSOLIDATED<br>PRO FORMA NTA | NTA PER SHARE |
|---------------------------|------------------------------|-------------------------------|---------------|
| <b>Pre-consolidation</b>  | 1,518 million                | \$1,340.0 million             | \$0.88        |
| <b>Post consolidation</b> | 506 million                  | \$1,340.0 million             | \$2.65        |

## 2.4 TAX IMPLICATIONS FOR CSR SHAREHOLDERS

*The summary in this section is general in nature. In addition, particular taxation implications will depend on the circumstances of each shareholder. Accordingly, shareholders are encouraged to seek their own professional advice in relation to their tax position. Neither CSR nor any of its officers, employees or advisers assumes any liability or responsibility for advising shareholders members about the tax consequences for them from the proposed share consolidation.*

The share consolidation will be undertaken in accordance with section 254H of the Corporations Act. Subject only to rounding, there will be no change to the proportionate interests held by each CSR shareholder in CSR as a result of the consolidation.

Accordingly no capital gains tax (CGT) event will occur as a result of the CSR share consolidation and therefore there will be no taxation implications arising for CSR Shareholders.

## 2.5 INTERDEPENDENCY WITH RESOLUTION 1 CONTAINED IN THIS NOTICE

The share consolidation will only be undertaken if Resolution 1 (capital return) is passed by shareholders.

In the event that Resolution 1 (capital return) is passed by shareholders, but Resolution 2 (consolidation of shares) is not passed, the capital return will proceed.

## 2.6 DIRECTORS' RECOMMENDATION

CSR's directors unanimously recommend that shareholders vote in favour of the proposed share consolidation. Each Director intends to vote all CSR shares held or controlled by him or her in favour of the proposed share consolidation.

## 2.7 DIRECTORS' INTERESTS

Refer to section 1.10 above for details of the CSR shares in which each CSR director holds an interest as at the date of this Notice of General Meeting.

## 2.8 NO OTHER MATERIAL INFORMATION

Other than as set out in this document, and other than information previously disclosed to CSR shareholders, there is no other information that is known to CSR's directors which may reasonably be expected to be material to the making of a decision by CSR shareholders whether or not to vote in favour of the share consolidation.

# 3 RESOLUTION 3 - APPROVAL OF ADJUSTMENT OF PERFORMANCE RIGHTS

## 3.1 THE PERFORMANCE RIGHTS PLAN

### (a) Background

As part of its employee long term incentive arrangements, CSR has awarded to some executives a total of approximately 5,640,000 performance rights under the CSR Performance Rights Plan (**PRP**). The PRP was approved by shareholders at the 2010 Annual General Meeting. As referred to in CSR's 2010 Annual Report, the purpose of the PRP is to:

- ♦ provide participating executives with a financial interest in CSR shares or performance rights;
- ♦ align their interests more closely with those of CSR shareholders;
- ♦ attract, motivate and retain the necessary executive talent to deliver and sustain business performance and increase returns to shareholders; and
- ♦ provide greater incentive for relevant employees to focus on CSR's longer term goals.

A performance right is a right to receive a CSR share at a future date, subject to a performance condition (measured by reference to CSR's total shareholder return (**TSR**) over a given period relative to that of a comparator group of companies in the ASX/S&P 200 Index as defined at the commencement of the performance period). In order for any of the performance rights to vest, CSR's TSR must be equal to or greater than the median TSR performance of the comparator group of companies.

If the performance condition is achieved, the performance rights vest and the holder automatically receives a CSR share for no further consideration.

As at the date of this Notice of Meeting no PRP awards have vested and the earliest any of the performance rights on issue can vest is 23 July 2012.

**(b) Adjustments to performance rights in the event of capital reorganisations**

Performance rights do not give holders any entitlement to participate in a capital return (only ordinary shares are eligible to participate).

The 2010 Notice of Annual General Meeting stated that, in the event of a capital reorganisation by CSR, performance rights under the PRP (and shares allocated on vesting of those performance rights) will be treated or adjusted as set out in the PRP rules, with the general intention that participants will not receive any advantage or disadvantage from such an adjustment.

The PRP rules do not currently provide for any adjustment mechanism in the case of a capital return.

**(c) Adjustment for capital returns is proposed**

CSR is seeking approval to adjust the terms of the performance rights with a view to ensuring performance rights holders are not disadvantaged by the proposed capital return described in 1 above.

The proposed capital return will decrease the capital underlying any shares ultimately received by performance rights holders if and when their performance rights vest. If performance rights were not adjusted for the diminution in the value of the shares underlying the performance rights, then performance rights holders would be disadvantaged relative to holders of ordinary CSR shares (because ordinary shareholders will have the capital returned to them as a cash payment per share).

CSR's directors believe that an equitable way to counter the diminution in value of the shares underlying the performance rights is to adjust the number of shares ultimately received on the vesting of performance rights to reflect the value of the capital return.

For the avoidance of doubt no adjustment is proposed in relation to the special dividend.

**(d) Existing rules will apply to the proposed share consolidation**

The PRP rules include existing provisions that operate in the case of a consolidation of capital. Upon a consolidation, performance rights will be consolidated in the same ratio as ordinary capital.

No further amendments are required or sought to address the proposed consolidation described in 2 above.

**3.2 PROPOSED AMENDMENT**

**(a) Summary**

Performance rights do not give holders any entitlement to participate in a capital return.

It is proposed to amend the PRP rules so that, if a capital return is made, performance rights holders will receive an additional number of shares if and when their performance rights vest. Consistent with the principles underlying ASX Listing Rule 7.22.3 (which deals with the adjustment of options in the event of returns of capital), the additional number of shares will reflect the value of the cash amount per share returned to shareholders in the capital return.

This will ensure that performance rights holders are not disadvantaged relative to ordinary shareholders and that the value of their PRP awards is not eroded by the capital return.

No shares will be received in respect of, and no additional shares will be received as a result of an adjustment to, any performance rights that do not vest (for instance, because the performance hurdle is not met).

**(b) Proposed adjustment formula**

It is proposed to include the following adjustment formula in the PRP rules, to adjust the number of shares underlying each performance right in the event of a return of capital to CSR shareholders:

$$AN = N \times \frac{SP}{(SP - CR)}$$

where

*AN* = the adjusted number of shares underlying a performance right

*N* = the number of shares currently underlying a performance right

*SP* = the volume weighted average price of CSR ordinary shares in the 5 trading days up to but excluding the ex-date for participation in the distribution

*CR* = the cash amount per share returned to ordinary shareholders

The amendment to the PRP rules will apply immediately upon shareholder approval, so that if Resolution 1 (capital return) is approved the adjustment to each holder's performance rights will be made at the time that the capital is returned to shareholders.

**(c) Worked example**

This is hypothetical and for illustrative purposes only. This worked example has been made on the following assumptions:

- 1 Weighted average share price \$1.60 at time of distribution
- 2 Distribution equals \$0.4357 per share

$$AN = 1 \times \frac{1.60}{(1.60 - 0.4357)}$$



$$= 1 \times \frac{1.60}{1.1643}$$

$$AN = 1.3742$$

So, for example, an employee with 10,000 performance rights which all vested would receive an additional 3,742 shares on vesting as a result of the adjustment. The employee would not receive any additional shares in relation to any performance rights that did not vest.

If Resolution 2 (consolidation) is also approved, there will then be a further adjustment under the existing PRP rules to consolidate the employee's performance rights in the same 3:1 ratio as the ordinary capital – ie the employee originally holding 10,000 performance rights will, following the consolidation, hold 3,333 performance rights and will be entitled to receive an additional 1,248 shares (ie 3,742 divided by 3) on vesting in respect of the capital return.

#### (d) ASX waiver

ASX has granted CSR a waiver from Listing Rule 6.23.3 to the extent necessary to permit the proposed amendment, on the condition that shareholders approve the adjustment by way of a separate, ordinary resolution.

### 3.3 NO INTERDEPENDENCY WITH RESOLUTION 1 OR 2 CONTAINED IN THIS NOTICE

If Resolution 3 (adjustment of performance rights) is passed by shareholders at the general meeting, the amendment to the PRP rules will be adopted regardless of whether Resolution 1 (capital return) and/or Resolution 2 (consolidation) is passed by shareholders.

### 3.4 DIRECTORS' RECOMMENDATION

CSR's directors unanimously recommend that shareholders vote in favour of the proposed amendment to the PRP rules. Each Director intends to vote all CSR shares held or controlled by him or her in favour of the proposed amendment to the PRP rules.

### 3.5 DIRECTORS' INTERESTS

Rob Sindel is the only director of CSR who has been issued performance rights under the PRP. Prior to Mr Sindel's appointment as a Director, he was issued a total of 863,481 performance rights under two separate PRP grants (the two grants were in the years ending March 2010 and 2011 respectively).

If Resolution 3 is passed by shareholders, Mr Sindel's performance rights will be adjusted in the same way as those of other performance rights holders (that is, there will be an adjustment so that he is entitled to additional shares on vesting to reflect the value of the capital return).

By way of illustration, applying the assumptions used in the hypothetical worked example in section 3.2(c), the adjustments would result in the number of shares to be issued on the vesting of Mr Sindel's performance rights increasing from 863,481 to 1,186,610. If the share consolidation in Resolution 2 is also approved, there would be a further adjustment and both these numbers would be consolidated in the same ratio as ordinary shares (giving Mr Sindel 287,827 performance rights, hypothetically entitling him to 395,537 shares on vesting on the assumptions used in section 3.2(c)).

### 3.6 NO OTHER MATERIAL INFORMATION

Other than as set out in this document, and other than information previously disclosed to CSR shareholders, there is no other information that is known to CSR's directors which may reasonably be expected to be material to the making of a decision by CSR shareholders whether or not to vote in favour of the proposed amendment to the PRP rules.

## 4 KEY DATES

*The timetable below assumes the return of capital and the share consolidation are both approved by shareholders.*

|                                    |  |
|------------------------------------|--|
| <b>8 February 2011</b>             | General Meeting  |
| <b>10 February 2011</b>            | CSR shares commence trading on an 'ex return of capital' basis   |
| <b>7.00 pm on 16 February 2011</b> | Record date for determining entitlements to participate in return of capital (entitlements will be determined by reference to CSR's pre-consolidation capital) |
| <b>18 February 2011</b>            | Trading in post-consolidation CSR shares commences on a deferred settlement basis  |
| <b>24 February 2011</b>            | Last day for registration of transfers on a pre-consolidation basis  |
| <b>3 March 2011</b>                | Payment date for capital return - cheques despatched (or direct credits paid)  |
|                                    | Deferred settlement trading ends. Post-consolidation holdings entered into holders' security holdings.   |
| <b>4 March 2011</b>                | Normal trading commences following share consolidation   |