



ADDRESS TO SHAREHOLDERS

Chairman Ian Blackburne
CSR LIMITED AGM 2004
15 July 2004

Ladies and Gentlemen,

I am very pleased to bring you this report.

CSR has completed its first full year of operations following the demerger of the heavy building materials businesses of Rinker Group Limited in March 2003. The demerger of Rinker has been one of the most significant and successful events in CSR's long history. The value of CSR and Rinker has been substantially re-rated, with the combined share prices of the two companies up over 80% since the demerger was announced less than two years ago.

I will speak to the future of CSR in a moment, but first let me give a brief review of our performance during the last year.

Twelve months ago, I outlined to you a number of objectives to improve returns for CSR shareholders including improving business performance and reducing costs, sound capital management, a high dividend payout ratio and developing growth opportunities. We have approached these initiatives with great enthusiasm and as a consequence we have had a very busy year.

During the year, the CSR board has visited many operations across the company's diversified portfolio of businesses in Building Products, Aluminium and Sugar. We have aggressively reviewed the performance and growth potential of each business and I am pleased to say that we have made good progress on our strategic objectives.

- We have reduced costs, by eliminating more than \$15 million in annual overhead expenses;
- We have built growth for your company, by investing \$237 million in growth projects; and
- We have returned \$154 million to shareholders in the form of dividends and a share buyback. This is equivalent to about 8% of CSR's market capitalisation.

The net profit result for the year of \$160 million, while slightly below last year, was an acceptable outcome considering the record lows reached by global raw sugar prices during the year. Despite pressure on sugar profits and a relatively flat market for Building Products, our Aluminium operations recorded a strong increase in profits, and our emerging Property activities also made a solid contribution to total returns.

The markets in which we operate are extremely competitive and we must ensure that our operations are performing at the highest standard within a low cost structure. CSR people are continually looking for opportunities to improve operations, to maximise safety and to minimise environmental impact. Through good recruitment this year we have considerably strengthened our operational and marketing skills.

CSR must also continue to maintain its leadership in innovation in the industries in which we operate in order to ensure that we are achieving and bettering best practice standards on a world scale. A good example of how CSR can increase its returns has been our efforts to assist the productivity of the Australian sugar industry through a wider industry improvement program.

CSR is a major participant in the sugar industry, employing almost 1,800 people in regional Queensland. Sugar has been hit by poor growing conditions and low prices in recent years; many people in North Queensland and elsewhere with a stake in the industry's well being

have suffered badly. The challenging market environment in recent years has accelerated the need to increase international competitiveness.

CSR is working closely with others, including the Canegrowers Association and the Bureau of Sugar Experiment Stations, on its Capacity Building Program to assist sugarcane growers and harvesters to increase productivity. Since the program was launched just two years ago, some growers are recording double-digit improvement in crop yields.

I have seen this program at first hand and believe it can make a major contribution to ensuring the sustainability and competitiveness of the Australian sugar industry.

CSR welcomed last April's announcement by the Australian Government of the \$444 million sugar industry reform program. In particular, we support the government's focus on diversifying the industry's revenue away from dependence on volatile world sugar markets to other activities such as ethanol and renewable energy.

CSR has already committed \$100 million to developing a renewable electricity project in the Burdekin. This project is supported by the Australian government's Mandatory Renewable Energy Target legislation, known as "MRET", which was introduced in 2000. Thanks to the MRET scheme the renewable energy industry has rapidly grown in the last few years having delivered 6,000 direct jobs and injecting over a \$1 billion worth of investment into regional Australia.¹

CSR is a key player in this market and by next year we will be producing about 12% of Australia's target for increased renewable energy production. We have also highlighted several potential projects at other sugar mills to expand our renewable energy production in future years.

However, some of these potential future projects are now at risk following the government's recent energy policy statement to neither extend nor increase the renewable energy targets despite recommendations made by an independent review panel.

In our view, the MRET scheme needs to increase its targets and extend the scheme beyond 2020. We encourage the government to reconsider its position in order to drive this type of development for the emerging Australian renewable energy industry. Stronger government support will help the Australian sugar industry diversify its income base and ensure that it remains sustainable and enjoys a secure future.

Strategy

Now looking ahead at our longer-term strategy, we are committed to maximising total shareholder returns – in other words increasing the CSR share price plus dividends. CSR's total shareholder return for the past year was 27.5% compared to 23% for the top 200 companies listed on the Australian Stock Exchange.

The best way for CSR to improve your return is through:

- Improving underlying business performance,
- Delivering value-adding growth, and
- Continuing to deliver a high dividend payout ratio.

To further improve business performance, we have specific operational improvement targets in all businesses to increase productivity and reduce costs. We intend to build on the \$15 million in annual overheads we have already eliminated from our cost structure this year.

To deliver value-added growth, as well as the investments that I have already referred to, we are currently reviewing several new growth projects allied to our businesses. We will be pursuing them if we are satisfied that these projects can create value for our shareholders.

¹ Source: Australian Business Council for Sustainable Energy.

Regarding dividends, CSR will continue to pay a high proportion of profits as dividends. We are also confident your dividend will return to full franking with the next payment to be paid to shareholders in December.

Active capital management will also improve shareholder returns. In May, the board announced that CSR is to buy back a further 5% of CSR shares during the next twelve months. This is in addition to 3% of the company's shares purchased during this last year.

Corporate governance

I would now like to turn to corporate governance.

Corporate governance and remuneration are of particular public interest and we value the feedback from our shareholders. I will invite you to ask questions about this aspect of the report and any other issues you would like to raise a bit later in the meeting.

An effective corporate governance structure is a key part of ensuring CSR can maximise shareholder returns. So a strong corporate governance culture, including transparency and accountability will continue to be very important to your board.

During the past year we completed a rigorous review of our governance framework. I am pleased to advise that our practices comply with the Australian Stock Exchange Corporate Governance Council's 10 essential principles. In the past year we have improved the disclosure of our corporate governance policies and the updated board charters and policies are provided for you to review at any time on CSR's internet site at www.csr.com.au

As many of you are aware, further changes to the Corporations Act, known as CLERP9 have now been enacted. CSR is compliant with the current requirements of the Act and will ensure we fully conform as new provisions of CLERP9 come into effect.

Our annual report includes a detailed remuneration report. CSR's remuneration policy is based on three key principles:

- Firstly, remuneration is set at levels that will attract, motivate, reward and retain good performers to continually improve business results,
- Secondly rewards are linked to achievement of business strategies and goals,
- And finally, the plan is structured to reward employees for increasing shareholder value.

I should emphasise that remuneration proposals are considered by a board committee consisting of all non-executive directors. CSR's non-executive directors are all independent of management and their remuneration structure excludes any of the cash or equity incentives available to management.

One issue that has been the focus of recent media attention is asbestos-related litigation. I want to assure you that your board takes an active interest in this subject and that CSR's sound approach to claims has not changed.

Since 1988 we have been meeting all valid claims made against CSR and its subsidiaries. We have adopted an open approach towards disclosing claims – detailing the number of outstanding claims in our accounts and the provisions we hold for all current and future expected claims.

We monitor developments regularly and we review our asbestos related provisions every six months in conjunction with independent experts in each of Australia and the United States.

CSR's Managing Director Alec Brennan is actively involved in the management of the issue and we believe we have very good practices in place.

While we expect CSR will continue to be named in claims in the future, the board does not believe that asbestos litigation will have a materially adverse impact on CSR's financial condition.

Outlook

Let me now look at 2005, the year ahead.

The 2005 year is an important one for CSR – it is our 150th anniversary on the 1st of January next year – our sesquicentenary. CSR is one of only a few Australian companies to reach this significant milestone.

It is a testament to CSR's reliability and stability that we have reached almost 150 years. It is also a testament to the abilities of CSR employees, past and present, led today by Alec Brennan that we have been an Australian success story. On behalf of the board, I would like to thank CSR's team of 4,500 employees for their continuing commitment and dedication to this company. This team has performed well in the past year and has laid the groundwork for a good year ahead. Indeed I would like to thank everyone who has worked for CSR during its successful 150 year history. We are today the successful Australian company that you, present and past, have made.

In the immediate year ahead, there are several positive factors that have improved CSR's profit outlook since we prepared the Annual Report in May. At that time we were looking at a relatively flat outlook. During the last few months, the market for sugar has strengthened and our cost reduction initiatives are progressing well. The prospects for the other businesses remain positive. Based on these factors, the company is now forecasting pre-tax profits to be around 15% higher than last year.

Your board is pleased that prospects have improved and we are confident that CSR is well equipped to perform soundly in the year ahead. I will call on Alec Brennan in just a moment to give you further details about CSR's operating performance and provide more information about the outlook for the year ahead.

Finally, I would like to re-emphasise once again our overall strategy, which is to optimise the performance of our businesses to maximise value and therefore, returns for you our shareholders. I can assure you that the board will continue to work assiduously on your behalf to deliver this strategy and to ensure the marketplace understands the true value of your company and its potential.

Ladies and gentlemen, thank you for your support of CSR.

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

ADDRESS TO SHAREHOLDERS
Managing Director Alec Brennan
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Fellow shareholders,

One of the central objectives of the demerger of Rinker Group Limited was to provide renewed focus on CSR's Building Products, Aluminium and Sugar businesses. During the year, we have taken the opportunity to review the strategies for each of these businesses and to ensure we have plans in place to:

- Lift our operating performance;
- Improve our customer service; and
- Find value creating ways to grow.

We have made good progress in all of these areas but we know that to be successful, we have to repeat this year in, year out. That is our challenge.

I would like to comment on our overall profit performance last year. Each of our businesses is cyclical but, fortunately, over a long period of time, the cycles have tended to offset one another. The year just concluded was no exception. We experienced a period of very weak raw sugar prices combined with a strong Australian dollar and this resulted, in real terms, in probably the worst Australian dollar sugar prices in 30 years. As a result, sugar profits were quite depressed. Sound performances from our other businesses meant that we were still able to deliver a pre-tax operating profit of \$263 million, less than 5% below the previous year's result of \$276 million.

Cash flow generation remained very strong at \$290 million and, even with the returns to shareholders by way of the dividend and share buyback, our debt levels and gearing fell. It is worth noting however, that the \$237 million of growth initiatives announced during the year will largely be paid for in the current year, so our gearing is expected to return to much closer to target levels by year end.

Shortly, I will spend a few moments talking about each of our businesses, their operating performance for the year just concluded and other important activities they have undertaken. Before that, I want to spend a few moments talking about our efforts to improve the safety, health and environmental performance of our businesses.

Within CSR, we have a strong focus on the health and safety of our people and on protecting the environment. These items are always the first item on the agenda for internal meetings within CSR.

Safety, health and environment

In the last year, the rate of recordable injuries across CSR fell by 17%. Within our businesses, the 760 people in CSR Sugar's Burdekin region achieved an impressive 59% reduction in recordable injuries – an excellent effort of which they can be proud.

While our performance is better than the average for comparable Australian companies, we know that we can and must improve further. Across CSR we have 180 operating sites. 60% of these sites have worked for a year without any recordable injuries and 40% have operated for at least three years without injury. Now to be fair I need to point out that 100 of the 180 sites are quite small – with less than 15 employees. However our challenge is to achieve this performance at every single CSR site regardless of size and the type of work being carried out.

On the environment, we carefully track our compliance with regulatory requirements and this year, we recorded a 25% reduction in environmental incidents. We are committed to continuously improving the environmental performance of our sites including limiting the amount of energy and water we consume and reducing the amount of waste and greenhouse

gas we generate. Each CSR business has specific targets to reduce these indicators progressively over a five-year period and report regularly to senior managers and the board.

We are seeing traction in improving these statistics. For example, our Macknade and Plane Creek sugar mills have invested in water recycling technology which last year halved the water drawn from external sources and reduced the amount of waste water produced.

CSR is also a growing supplier of renewable fuel through our ethanol operations. The company is currently supplying ethanol for blending into petrol in Queensland.

Government support both federally, and in Queensland to encourage the biofuels industry is welcome and necessary if this renewable fuel industry is to flourish. Australia has a net shortage of petroleum products and must rely on imports to fully meet demand. Ethanol can provide a local and sustainable alternative to some of this imported fossil fuel.

These are just a few examples of how our businesses take matters of the environment very seriously and I am confident that we will continue to improve and display our leadership here.

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. Our Gyprock™ plasterboard, Monier™ and Wunderlich™ roof tiles, Bradford™ insulation and PGH™ bricks and pavers – to name just a few of our products – are known and trusted. Whether people are building a new home or undertaking a renovation project, our products play an important part in helping people achieve their dreams.

Our products and services are also an important and growing part of the Australian commercial building scene. 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 past year, the number of dwellings that started construction across Australia dropped marginally, though in Victoria and NSW the fall was more significant - around 10%. Our pre-tax operating profit from Building Products fell from \$120 million to \$113 million. Given the level of activity and the general market conditions, we should have achieved a better result than this. In a number of cases, our factory and distribution costs were higher than anticipated.

While we made reasonable progress to get unit costs down, further work is needed and is underway. This year we are targeting to take some \$16 million out of our costs and, so far, we are on track to meet this target.

We are also working to improve our performance on basic customer service measures. Our strategy is simple: to deliver quality products to our customers in full and on time. We track these measures each month for all of our businesses and are constantly working on ways to further improve.

We also have longer-term plans to reduce our unit costs. For example, we are now well advanced on work to double the capacity at our low cost Oxley brick plant south of Brisbane. This will allow us to cost effectively meet the needs of the rapidly growing South Queensland market.

We looked at a number of potential acquisitions during the year but were not satisfied that they would deliver value for shareholders. We have however launched a number of new products. A major initiative included the launch in Australia of the Paroc fireproof panel system, which is used mainly in commercial applications. In China, we have brought on line 6,000 tonnes of additional glasswool insulation capacity and we are now working on a two-stage expansion to double the capacity of our 18,000 tonne a year rockwool factory.

Turning now to the outlook for the year ahead, we are expecting the housing market to slow down further as the year progresses. This will reduce demand for our products but we

expect that it will be partly offset by demand from the commercial and alterations and additions markets, both of which are forecast to maintain steady growth.

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 is the second largest smelter in Australia and produces 25% of Australia's aluminium output.

Tomago is a highly efficient smelter and is one of the world's lower cost operations. Our partners in the smelter are the Canadian company Alcan and the Norwegian company, Norsk Hydro. Alcan recently acquired our original joint venture partner Pechiney.

Tomago operates as a tolling smelter. Each partner provides the smelter with the raw material alumina and gets back aluminium. We sell aluminium products, known as billets, slabs and ingots to long-term customers in Japan and other Asian countries. They in turn further process those products into a range of goods for use in a number of industries.

CSR's joint venture company, Gove Aluminium achieved record production and sales last year. Operating profit increased significantly by 14% to \$144 million. The result was strongly supported by hedging which limited our short-term exposure to the strengthening Australian dollar and movements in the aluminium price.

In November last year, we announced our commitment to invest \$76 million as Gove Aluminium's share in a 15% production expansion project at the Tomago smelter. The expansion project is now complete and production is scheduled to ramp up over the next three years to around 540,000 tonnes a year.

Sugar

Now let's turn to our sugar operations which have been part of CSR for 149 years.

CSR Sugar comprises three separate businesses – sugarcane milling; sugar 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 are currently moving our ownership position from 50% 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.

We also have an emerging operation in our Sugar division dedicated to the production of green electricity. We are expanding our capacity to commercially generate renewable electricity through the \$100 million plant under construction at Pioneer sugar mill located in the Burdekin district near Townsville. When completed in June next year, this operation will produce enough power each year for 50,000 households and will reduce Australia's total greenhouse gas emissions by over 400,000 tonnes per year.

Looking at our performance in the last year, as I'm sure you know, sugar returns fell with a sharp drop in raw sugar prices due to increased supply from Brazil and the effect of the rising Australian dollar. Operating profit was \$38 million, down from \$71 million the previous year. Returns from refined sugar and ethanol were also lower due to lower demand and increased competition.

Looking at this slide which tracks raw sugar prices over the last fourteen years, you can see that the market has improved somewhat in recent weeks. Despite this increase, sugar prices remain well below historic levels achieved in the last decade. We continue to believe that as long as we are an efficient world class producer, we can earn acceptable returns from this business. Currently, we believe expansion in Brazil – the world's largest sugar producer – is slowing. There are also opportunities for increased demand from several key regions including the EU, China and India which may improve global prices in future years. Australia

currently supplies just under 10% of the world export market and we are well placed to benefit from future changes in the sugar market.

The sugarcane milling season is now under way and is proceeding well. We are currently forecasting a crop slightly ahead of last year due to improved production conditions in the Mackay and Herbert regions.

Property

Our property business, involves maximising returns from the development or sale 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 the last year, property contributed \$16 million in operating profit and this is likely to increase significantly this coming year.

Current performance and outlook

Now, let's look at our current performance and outlook for the next year.

As I mentioned earlier, our building products markets have been slowing over the past year and that is expected to continue during the current year. We believe that housing starts this year will be down about 5% on last year. To date, our Building Products operations are performing in line with expectations with key operational improvement targets being achieved. Volumes are similar to last year, and the environment is reasonably stable but we expect the market to slow more as the year progresses.

Aluminium is well hedged but, as we have previously advised, returns are expected to be 10% lower this year as Australian dollar returns already locked in are lower than last year.

For Sugar, prices have increased from a low point earlier this year. This provides a direct improvement to our Sugar earnings for this year. We have also received the first payment from the Australian Government for a sustainability grant paid this year to the entire sugar industry. CSR will use these funds to continue our efforts to improve industry practices and diversify revenue sources to ensure a viable and sustainable sugar industry. Our Sugar operations will also benefit from the additional 25% stake in the sugar refining operations acquired this year. The combined impact of these factors is a significant improvement in our Sugar operations compared to last year.

When we announced our full year results in May, we made an early forecast that we expected to achieve a pre-tax result broadly in line with last year. The combination of a lower exchange rate, higher commodity prices and achievements in operational improvements has now improved the outlook for our results. As Ian highlighted earlier, we now expect to achieve a pre-tax profit around 15% above last year.

CSR will also receive a one-off benefit of at least \$35 million as a result of electing to enter into tax consolidation. This benefit will be recognised as a significant item in CSR's net profit for the year ending March 2005.

I can assure you that we will continue to work hard at improving the performance of our businesses. Management is focused on optimising performance through aggressive control of costs, improving productivity, safety and environmental standards as well as developing significant new growth opportunities.

Overall, CSR has a portfolio of solid businesses, each of which is a strong cash generator. We have an excellent team of people managing and working in our businesses. Every business has performance enhancement goals and we are all working together to build and strengthen the group for the longer term.

I want to thank my fellow employees for their contribution to the company and their commitment to a strong future. As you may know, the majority 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.