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CSR Limited Annual General Meeting

26 June 2019

Chairman's Address

By John Gillam

Good morning ladies and gentlemen.

I am very pleased to be here with you again. The financial year ended March 2019 was a crucial period of repositioning for CSR and we are optimistic that this work is paving the way for a high performing future.

A significant milestone during the year was the $222 million sale of the Viridian Glass business which was completed in January.

You will recall that Viridian faced many challenges including high energy costs and unrelenting import competition. The decision to divest the business was not taken lightly, but we determined that our capital would achieve greater returns if deployed elsewhere within our portfolio.

The Board was pleased to achieve total divestment proceeds that exceeded market expectations and, in doing so, closed the book on what was clearly a difficult history for this business within CSR. I would like to congratulate our management team for the disciplined and high-quality execution of this transaction.

Looking at our financial results, it is now well reported that residential construction markets have slowed across the past year following a period of very high growth – particularly for high-rise apartments. Despite these tougher conditions, our building products businesses performed well, with volumes broadly in line with the prior year and earnings down by only 4 per cent.

Rob will review the company's performance in more detail shortly, but we have seen strong growth in new market segments like Bradford's polyester insulation, AFS permanent formwork and Hebel's external cladding products.

This performance illustrates a resilience that has been purposely built over several years through product innovation and market development.

We have also introduced higher value products and services underpinned by leading technology which helps reduce construction time and deliver better energy efficiency.

[CSR Inclose slide]

A great example of the product development work is our Inclose façade system which is manufactured in Port Kembla in New South Wales. The Inclose system recently completed its first major project at the ANU in Canberra with another major project underway later this year.

Our belief in the strong future prospects for the building products sector can be evidenced in the investments we have made in both innovative product solutions and growth-linked capex this year.

[Hebel expansion slide]

The completion of the $75 million new Hebel plant at Somersby on the NSW Central Coast is the most significant expansion project undertaken by CSR for many years. Hebel has seen significant growth across all key residential and commercial construction sectors as the only manufacturer of AAC panels in Australia and New Zealand. This plant enables us to develop new products as well as achieve significant efficiency gains and sustainability benefits on increased production volumes.

[CSR Property slide]

Our property business is deserving of greater recognition given the material earnings planned to flow annually from the impressive land holdings we have under development. CSR Property has delivered over $150 million in earnings in the last five years bringing very complex industrial redevelopment projects to the market.

This is set to continue for many years to come with our land assets of over 600 hectares in key growth areas across Eastern Australia. The major industrial area in Horsley Park and the growing residential development at Schofields – both in Western Sydney – are two examples of our property portfolio.

Now turning to succession, as you know our Managing Director Rob Sindel indicated his intention in December last year to retire from CSR.

Under Rob's nearly nine years of leadership, the core financial and operational performance of CSR's businesses have improved dramatically.

He has made CSR significantly more resilient by diversifying earnings and embedding a culture of performance alongside innovative product development.

Through his leadership, CSR has broadened the addressable market and customer base in building products across residential and commercial construction, together with new opportunities now emerging in civil and infrastructure markets.

CSR has also reduced reliance on cyclical earnings coming from the Aluminium business with a targeted hedging program to reduce volatility and lock-in returns.

Rob believes that it is the right time to hand over the reins to a new leader who can deliver the next phase of growth and development for CSR.

He is extremely well regarded throughout our company as well as in the construction sector and the wider business community. We sincerely thank him for his tremendous service to CSR and wish him well for his future endeavours.

[Managing Director Appointment of Julie Coates slide]

Following a comprehensive search process that assessed a strong field of external and internal candidates, the Board was delighted to confirm a few weeks ago that Julie Coates will be joining our company in September as CSR's next Managing Director.

Julie currently heads up Goodman Fielder in Australia and New Zealand, a major food products manufacturer and distributor, where over the last four years she has led a significant improvement in operational and financial performance.

She has a strong track record in manufacturing operations as well as large-scale complex supply chain and logistics expertise. She also has a deep understanding of product branding, marketing, digital transformation and global sourcing. These combined skills will be invaluable as CSR continues to adapt to change, innovate and pursue growth.

Before I conclude this address, I would like to highlight one of the key operational issues facing CSR today. CSR is a major manufacturer in Australia, operating over 40 sites across the country. These operations require high levels of gas and electricity to produce the products which are used to build our homes and buildings each day. We have a good track record in reducing our energy use while improving efficiency across our operations. Our carbon emissions per tonne of production are down 15% in the past eight years.

Gas consumers in Australia now pay as much for gas as our Asian neighbours who have no local gas reserves. This market inequity greatly hinders all parts of manufacturing. State and Federal Governments should be accessing the significant gas reserves in New South Wales and Victoria which do not require extensive investment in pipeline networks. This would quickly increase affordable supply to the market and ensure our manufacturing industries can continue to grow and thrive.

CSR is in a unique position as we are also a major consumer of electricity through our 25% interest in the Tomago aluminium smelter in Newcastle which employs over 1,000 people in regional NSW. Aluminium is a lightweight, versatile and recyclable metal of the future and therefore worthwhile supporting as a long-term Australian industry. Aluminium production requires significant amounts of energy. Tomago currently accounts for around 12% of electricity consumption in New South Wales each day.

CSR first invested in Tomago back in the early 1980s as it was able to access Australia's plentiful and low-cost energy resources.

Today, while Australia continues to have a natural competitive advantage with access to widespread electricity either through fossil fuels or renewable sources, we are paying some of the highest prices for energy in the world.

This is not sustainable for many manufacturers which compete on the global market. Our policies must address the key points of energy reliability and affordability alongside the impact of carbon emissions and climate change.

Tomago is uniquely placed to play a key role in the reliability of electricity supply for the benefit of all energy consumers in NSW. This will require agreement across electricity users, generators and governments to settle on practices which better utilise our existing power supplies while ensuring we support manufacturing industries.

Without this type of collaboration, we will see more manufacturing industries leaving the Australian market. History has shown that once these industries leave, they rarely return.

In summary, CSR is well placed for the year ahead, despite the current tougher trading conditions. Prospects for the housing market are improving, while there are several significant commercial and infrastructure projects which have been announced in the past year which will provide further demand for the building industry.

In closing, I would like to acknowledge the significant contribution from Rob, our executive team and the 2,900 co-workers across Australia and New Zealand to the strong underlying performance of CSR in this past year. We greatly appreciate the continued commitment and endeavours of our terrific employees. And I want to also thank all shareholders for your support of CSR.

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Managing Director's Report

By Rob Sindel

Good morning ladies and gentlemen. And thank you again to our many shareholders who have joined us here today. As John highlighted, it has been a busy year with some significant changes taking place at CSR. I would like to begin with a look at our performance during the year.

[Sustainability overview slide]

One of the most pleasing aspects of our results this year was our significant improvement in safety. This follows a multi-year strategy to focus on our leadership and behaviours to drive safety improvement as well as ongoing assessment of the physical risks in our operations. What this means is that we have a very proactive approach to safety through toolbox talks, safety walks and engagement with our teams to ensure everyone goes home safely.

This has resulted in a step change in our safety measures with the total recordable injury rate down 25%. This is now at its lowest level since we began tracking this data 15 years ago.

On our environmental targets, we are also progressing well, having reached our 2020 intensity targets in waste and carbon emissions a year ahead of target.

Over the last three years, we have invested over $4 million in energy improvement initiatives and solar projects which helped contribute to a 2.6% decline in our CO_2 emissions this year alone.

Looking ahead we are reviewing our sustainability targets extending out to the year 2030 with a focus on continuing to reduce our energy and water usage, and greatly reducing our waste to landfill. We are also consulting with key stakeholders to identify target areas with reference to the Task Force on Climate-related Financial Disclosures and the UN Sustainable Development goals.

[EBIT results by business slide]

Looking at our financial results, there are a couple of key areas to highlight:

The first is the solid performance in Building Products despite some moderation in volumes in the last few months of the financial year. This includes $14 million in growth investments in digital services for customers and new construction systems, where we see significant scope to grow market share in the commercial market.

Property continues to deliver a significant earnings stream for CSR with EBIT of $39 million – ahead of our five-year average of $31 million. We are seeing very strong demand for industrial property in Western Sydney following the sale of Stage 1 of

Horsley Park. Further information on our Property business will be shared with investors this Friday with the presentation available via a webcast from CSR's website.

The most significant decline in earnings this year was due to the Aluminium business which delivered earnings of $37 million reflecting $61 million in higher electricity costs.

Now on to what has been our consistent strategy over the last 8 years.

[Building Products EBIT slide]

Building Products now represents 78% of our total earnings up from 52% compared to five years ago. This growth in Building Products earnings is best illustrated by the chart on the screen.

The red bar on this slide represents earnings from our Lightweight Systems business including Gyprock and Cemintel fibre cement which have delivered growth above the market.

Pleasingly our intention to diversify building products earnings has seen the most significant growth in revenue and profit come from our other Building Products businesses. Our focus on improving market share or market position in what were traditionally less profitable parts on our portfolio has, in my view, delivered a more resilient business.

[Diversification of revenue slide]

In addition, the next slide shows how the plan to diversify our business across a wider addressable market has increased revenue where we had low penetration, specifically high-rise residential and commercial construction.

Hebel and AFS continue to grow by delivering improved speed of construction and more flexible building systems. Both still have relatively low category market share providing the opportunity to grow above trend.

We have also delivered growth in Lightweight Systems through our expanded ceilings business and distribution network, and in PGH Bricks through new, innovative cladding systems.

[Outlook slide]

Looking at the outlook for the remainder of the year,

Volumes in the first two months of this financial year remain broadly consistent with the final quarter of last year.

Recent reductions in interest rates, improving credit availability, stable tax policies and first homeowner support have boosted hopes for an improvement in consumer confidence and demand for housing. Having said that; the timing of any positive impact is always difficult to predict.

In Property, while the quantum of earnings may fluctuate due to the timing of transactions, the ongoing development of a number of major projects will underpin Property earnings over the next 10 years.

In Aluminium, contracts are now in place for approximately 75% of our alumina requirements linked to the US$ aluminium price. This will replace the current alumina contract which expires in December 2019. A contract for the balance is expected to be finalised within the first half of this financial year.

Finally, as John highlighted earlier, I will be stepping down in September after nearly nine years as Managing Director of CSR. Now is the right time for me to hand over leadership of the company to Julie Coates who will be well supported by CSR's strong leadership team.

CSR is nearing its 165th birthday in January – one of a very few companies in Australia to achieve this milestone. The key to its longevity is the ability of CSR to adapt and ensure it is resilient to changes in our markets.

The trust in our values and the desire to always do the right thing has stood CSR in good stead and will continue to define our culture for many years to come.

I would like to thank the people who have supported me during my tenure at CSR, many of whom are here today. My time at CSR has been an extremely rewarding period and I would like to give my sincere thanks to the many friends and colleagues who have worked with me over the years.

Thank you also to the board and our shareholders who have been so supportive of the company.