CSR LIMITED

An Address by

R.G. Jackson, General Manager
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CSR In Brief

CSR was established in 1855 as a sugar refiner in Sydney and over 125 years has grown to become a diversified industrial company. CSR ranks fourth in Australia in terms of share market capitalisation, ($1.3 billion at current prices) and was 176th in Fortune's 1979 list of industrial corporations outside the USA.

CSR is very much an Australian enterprise. About 93% of shares are held in Australia and 6% in New Zealand. 11% of CSR's shares are held in Queensland. There are about 71,000 shareholders. Most holdings are of modest size, owned by individuals. The twenty largest shareholders, which include Australian institutions and funds, hold about 40% of the capital.

We adhere to the principle of a strong board, with a majority of non-executive directors, being in a check and balance relationship with a strong management. We seek non-executive directors from a diversity of backgrounds who are recognised as leaders in their own fields, so that their judgment is respected by management. We are pleased that Sir Leslie Thiess is joining the board from 1 April.

We try hard in reports to shareholders to make it clear what sort of company we aim to be, where we want to go, and how we propose to get there. We recognise the special role of analysts in creating an efficient capital market, so we try to put in all the information we think analysts may want, without making the report so specialised as to put off the ordinary shareholder; or employees, to all of whom the report is available.

CSR Operations

From 1 April CSR's operations will be organised in five divisions: sugar, energy, aluminium and chemicals, minerals, and building materials.

CSR mills raw sugar from cane in Queensland, markets raw sugar exports on behalf of the Queensland Government, and provides technical and other services for the sugar industy. Under contract to the Queensland Government, CSR refines sugar in five cities in Australia, and on its own account in New Zealand. CSR's three distilleries produce ethanol from molasses. The sugar division also runs sheep and cattle on a large scale, operates a rural agency business and grows Queensland or macadamia nuts.

The group's first major mineral venture began in 1966. Group companies now mine coal, iron ore, copper, tin and bauxite, and make alumina. The energy division also produces natural gas, operates a small oilfield, and provides contract drilling services. Other operations make a range of industrial chemicals from ethylene and propylene.

CSR began making soft building boards in 1939. Now the building materials division mines gypsum and manufactures building materials throughout Australia. Products include plaster, plasterboard, terracotta roof tiles, aluminium windows and doors, vinyl flooring, plastic extrusions and mouldings, fibreglass and rockwool insulation, particleboard, hardboard, softboard, ceiling panels and rollformed metal. CSR has large investments in companies supplying ready-mixed concrete, asphalt paving, quarrying and cement.

Thiess

Last November, CSR proposed a merger with Thiess Holdings Limited to be implemented by an offer to acquire all of its outstanding stock units. For some years we had felt that the acquisition of Thiess was consistent with our growth strategy in energy resources. So we planned accordingly and we were ready when the opportunity came.

The activities of CSR and Thiess are a good fit and reinforce each other. The merged company will operate open cut and underground coal mines in three states. It will be in a strong position to develop massive new projects for coal, particularly in Queensland; and in due course tackle the billion dollar projects of the future.

The Thiess board has recommended the merger and the directors have accepted for their own shareholdings. As at close of business on Friday, acceptances had been received from over 81% of the stockholders for 93.5% of the shares subject to the offer, including the shares bought prior to the offer. CSR's total entitlement is 96%. The offer has been extended to 29 February to give the remaining stockholders the opportunity of accepting and so receiving their consideration within 14 days.

CSR in Queensland

CSR started to build its first raw sugar mill in Queensland 100 years ago, and went into refining at New Farm ten years later. Over the century, CSR has contributed to the growth of the sugar industry in several ways: the design of the small farm and central mill system, the breeding of cane varieties, export markets, and the development of bulk handling.

Our seven sugar mills are all in Queensland. So is the Sarina distillery, which at one time used to sell its output as power alcohol for blending with petrol, and now sells industrial alcohol.

Sugar is as important to CSR as it is to Queensland, and our sugar division is actively seeking ways to improve productivity; to foster the further development of the industry in Queensland; and to strengthen our good relations with the industry and government.

Seventeen years ago we had the idea that the skills learnt in the agronomy and breeding of cane could be applied commercially to Queensland's native nut, the macadamia. This is now a flourishing export industry.

On the pastoral side, the sugar division runs about 173,000 sheep and 148,000 cattle on 15 commercial properties in Queensland. The division also maintains four studs. CSR is the largest merino studmaster in Queensland.

The energy division produces natural gas from the Roma field and operates the pipeline to Brisbane.

For a long time CSR pursued a somewhat centralist philosophy of organisation with a strong technically oriented organisation working mainly from Sydney. However, for the last ten years we have been working in the opposite direction, emphasising decentralisation, and devolution of authority and accountability to operating sites. Concurrently operating sites have been supplied with the professional resources and the information to do the job. The inspectorial system has been abolished and instead cohesiveness of group operations is supplied by strategic planning in which all levels participate. For example, the sugar mills have their own technical services in Queensland and are freestanding profit centres.

In 1978 the headquarters of AAR were moved from Melbourne to Brisbane – since then AAR's technical and administrative staff in Brisbane has increased by 50% to over 300. All the group's exploration in coal, oil and uranium is done out of Brisbane. In 1978 the macadamia group moved to Brisbane. Last year the pastoral group and the Hail Creek project team moved to Brisbane. The Richter contract oil drillers are headquartered here. In fact we have fewer people now in the sydney head office than we had 10 years ago, although the company is four times bigger.

This broad philosophy will certainly apply to any restructuring of the Thiess organisation. The opportunities for employment in Queensland, particularly of professional people, will be enhanced by the Thiess merger with CSR.

Current Performance

Turning now to CSR's current performance . . .

In recent years we have been focusing on mainstream activities; reducing costs and divesting assets that did not fit our strategic growth plans. The result has been to reverse the trend for return on shareholders' funds to fall. For the year to last March it was a healthy 11.4%.

Consolidated group net profit before extraordinary items for the half year ended 30 September 1979 was $41 million. This was 48% higher then for the previous corresponding period, and followed earnings of $60 million for the year ended March 1979.

The improvement in results for the half year came in large part from sugar and pastoral activities where prices have been better. Building materials have also improved. On the other hand there was a marginal fall in minerals.

The interim dividend was 9 cents per share, up 20% on the previous 7½ cents. The interim was paid on the new shares created by the 1 for 4 rights issue last year. That issue carried a bonus element of about 18%.

The Year Ahead

Sugar is one of the most cyclical of all commodities. It has been apparent for some time that a new upswing of the sugar cycle is in progress. Of course nobody knows how long the upswing will continue, or how sharp will be the peak in the price pattern. There is little sign yet of construction of new capacity or of the rebuilding of stocks that must take place before the cycle turns over to the downswing.

Iron ore prices have been increased by 20%, and bauxite and alumina prices have also improved. Other metal prices are buoyant.

The outlook for coking coal is improving and the market for steaming coal strong.

On the pastoral side beef prospects look good, and wool prices are favourable.

Thiess Holdings, Western Collieries and Haughton Sugar will be fully consolidated in CSR group operations for the coming year. On the other hand, earnings from some divestments will disappear – notably the minority holding in Fletchers, the entire Carba group, and the 60% holding in Thiess Toyota, all of which have been sold.

CSR, following the accounting standards, does not equity account, so investments in Thiess Dampier Mitsui and others will be included on a dividend basis only.

Prospects for the Longer Term

The annual report spells out CSR's intentions for the future. We are concerned with natural resources (notably foodstuffs, minerals and energy) and with related products and services. We seek to grow in a logical way through business activities that are supportive, rather than through random involvement in unrelated prospects, however attractive. We prefer to manage rather than invest and to avoid minority situations.

Analysts find it fairly straight-forward to calculate CSR's future earnings from present operations, if assumptions are made about the future prices of our various commodities. So the main area you will want to hear about is development prospects for the future.

The CSR group has a number of significant development prospects, many of them in Queensland. Last financial year the group spent $10 million on exploration research and development; in the current year it will be about $18 million.

The South Blackwater mine of Thiess Holdings produces high quality coking *coal* for export. Capacity has recently been expanded to 2 million tonnes a year and production is being increased from last year's 1.1 million tonnes.

The Callide mine produces steaming coal for power generation and industrial use in the Gladstone area. It has prospects of considerable growth to provide energy for the aluminium and other industries.

Theodore is a very large undeveloped resource of export quality steaming coal. We are moving at all speed towards making this coal available to meet the high demand for steaming coal which we see for the mid 80's.

Studies are also in progress to determine the feasibility of developing the adjacent Taroom and Wandoan coal deposits. These are of interest both for steaming purposes and as a feedstock for production of liquid fuels.

Development of the Hail Creek coking coal project is a major priority. The ownership of the project is settled, and CSR has been appointed as operator. Feasibility studies have been updated and marketing proposals submitted to consumers in Japan and Europe. The basic concept of the project is 4.5 million tonnes a year but alternatives involving lower tonnages to begin with are being studied.

AAR has deposits of semi-anthracitic coal at Yarrabee. Feasibility studies are complete and it can be brought into production quickly when marketing arrangements are concluded. Negotiations are taking place with buyers in the Republic of Korea, where the coal would be used to make briquettes for domestic heating.

The Lemington mine of Buchanan Borehole Collieries in NSW and the Collie mines of Western Collieries in Western Australia both have potential for significant expansion.

Production from the Drayton deposit of high quality steaming coal in the Hunter Valley of NSW is planned to start in 1982, with output reaching 2 to 3 million tonnes in 1984.

Turning to iron ore . . .

A year ago, we announced the discovery of a deposit of high-grade iron ore at Yandicoogina. It is continuous, uniform and large by world standards.

Probable ore reserves were established by early 1979 at 1240 million tonnes, with additional possible ore of 1710 million tonnes. A drilling programme just completed will allow upgrading of 225 million tonnes of the probable ore to proved reserve status. The ore occurs in the hydrated form as a pisolitic geothite.

It is at or close to the surface. The average calcined iron content of iron ore is 65%. Alumina content is attractively low at 1.5%. The ore would be ideal for blending with lower quality ore to make a good sinter feed.

Feasibility and market studies are being undertaken.

In September 1979 we announced the discovery of thick intercepts of molybdenum mineralisation at the Mt Pleasant prospect near Mudgee, about 100 miles west of Sydney. The mineralisation is not apparent on the surface.

Assays of three vertical diamond cored holes have been reported. The discovery hole was continuously mineralised from 16 metres to a total depth of 294 metres. Hole 11, 225 metres to the north-east was continuously mineralised from 11 to 200 metres. Hole 13, 100 metres to the south was continuously mineralised from 17 to 426 metres.

The average grade of this mineralisation approaches the cut-off grades in some North American commercial operations.

The prospect is still at the early investigation stage. It can't yet be said that a commercial ore body has been identified. Further drilling to establish the extent of the mineralised body, tonnage and grade is in progress. Two further holes (100 metres to the south and east of hole 13) have been drilled but assays are not yet to hand.

Offshore oil . . .
CSR is one of 33 companies which accepted an invitation from the Chinese Ministry of Petroleum to participate in a seismic study of a large area off-shore southern China. The cost to each of the 33 participants will approximate $2 million. The seismic study is more than 50% complete.

When all the information becomes available towards the end of 1980, and has been interpreted, the participants will have the right to bid for development of blocks. Meanwhile the Chinese have reported a discovery of oil in the area of interest.

In Australia, AAR is farming-in to Western Mining's interest in part of the Pedirka Basin in South Australia, and is also seeking oil and gas in the Surat and Bowen Basins and elsewhere.

Outside Australia, AAR is continuing exploration drilling aimed at extending the life of its small oil field at Bula in Indonesia, and has a 15% interest in the Maryut prospect in Egypt.

On uranium . . .
AAR has a modest exploration programme. In the Lake Frome area of South Australia, further drilling has increased the inground reserves of the Honeymoon sedimentary deposit.

The deposits are beneath deep cover and tests have shown that the uranium is amenable to solution mining in situ. This doesn't involve dislocating the surface. A proposal to erect a solution mining pilot plant during 1980 is being carried forward. Exploration is proceeding on other similar sedimentary uranium deposits in the same area.

CSR, BHP, Peko Wallsend and Western Mining have been invited by the Australian Government to form a consortium to investigate the feasibility of establishing a commercial uranium enrichment and conversion plant in Australia.

The rate at which crude oil prices are increasing indicates that the higher quality shale oil projects will become more attractive. CSR has tenements over more than 1000 square kilometres in the Julia Creek district. The Toolebuc formation, which contains the oil shale, appears to be continuous over the whole area.

Drilling to date has indicated 1350 million tonnes of measured reserves, probable reserves of 1850 million tonnes of oil shale, and additional reserves of 650 million tonnes are inferred. All is accessible to open-cut mining. Preliminary tests indicate that the overburden material can be excavated by either bucket wheel excavators or draglines. $4 million has already been spent over 10 years on drilling, geological and processing studies. A preliminary feasibility study to cost a further $1 million is now under way to determine if a 100,000 barrels per day shale oil project could be economically developed.

A considerable amount of work has been done on drilling, mining and water studies. The important aspects now to be considered are:

- mining concepts
- reporting methods
- refining studies
- infrastructure, and
- overall financial evaluation

The average oil content in situ is 62 litres per tonne after mine dilution factors are taken into account, or putting it another way about 2.6 tonnes of shale to the barrel of oil. So a project of 100,000 barrels a day would have a job of moving materials that would be comparable, say, with Mt Newman. Although the Julia Creek oil is heavier than any currently being refined in Australia, its analysis suggests that it could be converted into refined products, a major part of which would be gasoline.

Turning to the aluminium industry . . .
Gove Alumina is joining with Pechiney in a smelter at Tomago in the Hunter Valley of NSW. Gove Alumina will own 35% of the smelter, and will participate in management. The smelter will have a capacity of 220,000 tonnes per annum and is planned to come on stream in 1983. Gove Alumina Ltd has its own supply of alumina from the plant at Gove.

CSR is also investigating the possibility of constructing smelters elsewhere.

Besides those mentioned, CSR is actively exploring elsewhere in efforts to enlarge the group's resource base.

Turning to liquid fuels . . .
CSR has 3 distilleries producing industrial ethanol from molasses. One of these is at Sarina, near Mackay. The potential of agricultural crops such as sugar cane and cassava for greatly increasing ethanol production is of major interest today. It is receiving priority attention by CSR's sugar division. The increased production could be used as a feedstock for chemicals or as a gasoline extender.

On timber . . .
The New Zealand Government has approved agreements for a feasibility study for the development of pine forest resources at Nelson to supply a thermomechanical pulp mill. If an investment decision can be made late in 1980, operations would begin in 1983.

Conclusion

The record shows that CSR has grown strongly when international commodities have been good, and has grown at least moderately when world trade has been bad. We have turned to advantage the hard times of recent years by strengthening the company's capacity to adapt to change, without losing sight of the directions in which we want to go. We have a strong base in resources, reserve capacity in each division, and some exciting development prospects. The company is well placed for future growth.