

Directors' Report

The Board of Directors of CSL Limited has pleasure in submitting the statement of financial position of the Company and of the consolidated entity at 30 June 2005, and the related statement of financial performance and statement of cash flows for the year then ended, and reports as follows:

1. Directors

The Directors of the Company in office during the financial year and until the date of this report are as follows.

Mr P H Wade (Chairman)
 Dr B A McNamee (Managing Director)
 Mr J Akehurst
 Miss E A Alexander, AM
 Mr A M Cipa
 Mr I A Renard
 Mr M A Renshaw (appointed July 2004)
 Mr K J Roberts, AM
 Dr A C Webster

Particulars of the directors' qualifications, experience, all directorships of public companies held for the past three years, special responsibilities, ages and the period for which each has been a director are set out in the Directors' Profiles section of the Annual Report.

2. Company Secretary

The company secretary is Mr P R Turvey, BA/LLB, MAICD. Mr Turvey was appointed to the position of company secretary in 1998 having joined the Company in 1992. Before joining CSL Limited he held the role of Company Secretary for five years with Biotech Australia Pty Ltd. Mr E H Bailey, B.Com/LLB, is Assistant Company Secretary and was appointed in 2001 having joined the Company in 2000. Before joining the Company he was a Senior Associate with Arthur Robinson & Hedderwicks.

3. Directors' Meetings

During the year, the Board held 10 meetings. The Audit and Risk Management Committee met four times and the Human Resources Committee met five times. The Nomination Committee comprises the full Board and meets in conjunction with Board Meetings. The Securities and Market Disclosure Committee met 15 times and comprises at least any two Directors, one of whom must be a non-executive director.

The attendances of directors at meetings of the Board and its Committees were:

	Board of Directors		Audit and Risk Management Committee		Securities and Market Disclosure Committee	Human Resources Committee	
	Attended	Maximum	Attended	Maximum	Attended	Attended	Maximum
P H Wade	10	10	4 ¹		15	4 ¹	
B A McNamee	10	10	4 ²		15	4 ²	
J Akehurst	10	10				4	4
E A Alexander	10	10	4	4			
A M Cipa	10	10	4 ²		2		
I A Renard	10	10	4	4		1	1
M A Renshaw	10	10	1	2			
K J Roberts	10	10				5	5
A C Webster	9	10	1	2		5	5

¹ Attended for at least part in ex officio capacity

² Attended for at least part by invitation

4. Principal Activities

The principal activities of the consolidated entity during the financial year were the research, development, manufacture, marketing and distribution of biopharmaceutical and allied products. During the year the consolidated entity sold its cell culture business, JRH Biosciences, to Sigma-Aldrich Corporation.

5. Operating Results

The profit of the consolidated entity for the financial year, after providing for income tax, amounted to \$546.5 million. This represents a 149% increase on the 2003-2004 result of \$219.6 million. Underlying net profit after tax was \$316.7 million an increase of 103% over the previous year after adjusting for goodwill and the sale and operating contributions of JRH Biosciences and the Animal Health Division in 2004 and 2005. Net profit after tax including goodwill amortisation but before the sale of JRH Biosciences was \$297 million. Sales revenue was \$2.75 billion which was up 67% on the previous year. Research and development expenditure was \$146m which was up 44% on the previous year. Net operating cash flow was \$568 million which was up 174% on the previous year.

6. Dividends

The following dividends have been paid or declared since the end of the preceding financial year:

2003-2004 A final dividend for the year ended 30 June, 2004, of 26 cents per ordinary share, fully franked at 30%, was paid on 8 October, 2004, out of profits for that year as declared by the Directors in last year's Directors' Report.

2004-2005 An interim dividend on ordinary shares of 17 cents per share, fully franked at 30%, was paid on 15 April 2005. The Directors of the Company have declared a final dividend of 30 cents per ordinary share, fully franked and a special dividend of 10 cents per ordinary share franked to 1.78 cents per ordinary share for the year ended 30 June 2005, to be paid out of profits for that year.

In accordance with determinations by the Directors, the Company's dividend reinvestment plan remains suspended.

Total dividends for the 2004-2005 year are:

	On Ordinary shares \$'000
Interim fully franked dividend paid 15 April 2005	\$33,701
Final dividend payable on 10 October 2005	\$73,538

7. Review of Operations

The most significant activity during the year has been the implementation of a complex integration plan to merge the Aventis Behring business acquired in the previous year with ZLB Bioplasma. ZLB Behring, the new merged entity with global sales of \$2.2 billion, became a global leader in plasma therapies and a significant supplier of Recombinant Factor VIII for the treatment of Haemophilia A. Sales of intravenous immunoglobulin benefited from improved prices in the United States with the Company's first liquid version being approved in eight European countries. Vivaglobin, the new subcutaneously administered immunoglobulin was approved in Europe late in the year and is currently being evaluated in the US by the FDA.

The Australian plasma products operations, CSL Bioplasma, generated \$209 million in sales revenue achieving growth of 17% underpinned by the merging of ZLB Behring's commercial activities in Asia (excluding Japan).

A new Agreement was entered into with the National Blood Authority which provides for the supply of plasma derived therapeutics to Australia for the next five years. In addition, a new five year agreement was entered into with Bayer Healthcare appointing the Company as the exclusive Australian distributor for Bayer's recombinant Factor VIII product.

In regard to the Company's pharmaceutical business, a new influenza vaccine centre was opened with an expanded and upgraded manufacturing facility and an increased ability to supply influenza vaccine to the Australian market and with capacity to efficiently provide vaccine in the event of an influenza pandemic.

In regard to new product development activities, Merck & Co Inc, as the exclusive licensee of a human papillomavirus vaccine, has announced that it intends to file for product registration with the US FDA in the second half of 2005. In Canada the Phase II clinical trials of plasma derived reconstituted high density lipoprotein (rHDL) has recently begun to test whether infusions of rHDL will reduce the volume of plaque in coronary arteries of patients with acute coronary syndromes.

Progress has also been made in the development of the Iscomatrix adjuvant with the continued clinical program of a number of potential products utilising the technology as well as continuing to work with licensing partners such as Merck and Chiron on new vaccine and immunotherapeutic opportunities.

8. Significant changes in the State of Affairs

In February 2005, the consolidated entity sold its JRH Biosciences business to Sigma-Aldrich Corporation for US\$370 million (A\$492 million) subject to normal contractual adjustments.

There are no other significant changes in the state of affairs of the consolidated entity during the financial year not otherwise disclosed in this report or in the financial statements.

9. Significant events after year end

Directors are not aware of any matter or circumstance which has arisen since the end of the financial year which has significantly affected or may significantly affect the operations of the consolidated entity, the results of those operations or the state of affairs of the consolidated entity in subsequent financial years.

10. Likely Developments Business Strategies and Future Prospects

In the medium term, the Company will continue to grow through developing differentiated plasma products, expanding flu vaccine sales, receiving royalty flows from the exploitation of the human papillomavirus by Merck & Co, Inc, referred to in section 7 of this Director's Report and the commercialisation of the Company's Iscomatrix® adjuvant technology. Over the longer term the Company intends to develop new products which are protected by its own intellectual property which are high margin human health medicines marketed and sold by the Company's global operations. Further comments on likely developments and expected results of certain aspects of the operations of the consolidated entity, and on the business strategies and prospects for future financial years of the consolidated entity, are contained in the Year in Review in the Annual Report and in section 7 of this Directors' Report. Additional information of this nature can be found on the Company's website (www.csl.com.au). Any further information of this nature has been omitted as it would unreasonably prejudice the interests of the consolidated entity if this report were to refer further to such matters.

11. Environmental Regulatory Performance

The consolidated entity maintains management systems for health, safety and the environment that are consistent with internationally recognised standards to help ensure that its facilities operate to those standards to help protect its employees, contractors and the environment. The consolidated entity also provides appropriate training and resources so that its employees are equipped to work safely and to maintain incident-free workplaces.

Additionally, the consolidated entity's environmental obligations and waste discharge quotas are regulated under applicable Australian and foreign laws. All environmental performance obligations are monitored by the Board and subjected from time to time to government agency audits and site inspections.

The consolidated entity also endeavours to minimise the environmental impact of its operations by recycling waste paper and other materials and by the responsible management and disposal of all product packaging.

No environmental breaches have been notified by the Environmental Protection Authority in Victoria, Australia, or by any other equivalent interstate or foreign government agency in relation to the Company's Australian or international operations during the year ended 30 June 2005.

12. Directors' Shareholdings and Interests

At the date of this report, the interests of the directors who held office at 30 June 2005 in the shares, options and performance rights of the Company are set out in a table on page 13 of this Report.

Directors' Report

13. Directors' Interests in Contracts

Section 17 of this Report sets out particulars of the Directors Deed entered into by the Company with each director in relation to Board paper access (indemnity and insurance matters).

14. Share Options

As at the date of this report, the number of unissued ordinary shares in the Company under options and under performance rights are set out in Note 28 of the Financial Statements.

Holders of options or performance rights do not have any right, by virtue of the options or performance rights, to participate in any share issue by the Company or any other body corporate or in any interest issued by any registered managed investment scheme.

The number of options exercised during the financial year and the exercise price paid to acquire fully paid ordinary shares in the Company is set out in Note 28 of the Financial Statements. Since the end of the financial year, no further options have been exercised.

During, and since the end of, the financial year, no performance rights were exercised. There were no shares issued as a result of the exercise of performance rights during the financial year or since the end thereof.

15. Remuneration Report

Board and Human Resources Committee

The Board has adopted a formal charter delegating certain of its responsibilities concerning human resources and remuneration to the Human Resources Committee. This charter can be found on the www.csl.com.au website under Corporate Governance; Board and Committee Charters.

The responsibilities of the Human Resources Committee include:

- reviewing and monitoring the human resources strategic plan;
- reviewing and approving the corporate human resources policies;
- establishing a policy framework for employee and senior executive remuneration;
- reviewing and recommending the terms relating to the Company's employee share, option and performance right schemes;
- recommending to the Board individual senior executive remuneration packages and where appropriate, seeking independent advice regarding senior executive remuneration;
- recommending to the Board senior executive recruitment, retention and termination policies as well as succession planning strategies and policies;
- reviewing benchmarks against which salary reviews are made and monitoring and reviewing the Company's performance management system; and
- reporting to the Board any findings or recommendations of the Committee after each meeting.

In accordance with the charter, the Board reserves responsibility for:

- the remuneration of non-executive directors;
- setting the terms of employment and remuneration for the Managing Director;
- approving remuneration for senior executive management; and
- the operation and policies relating to the Company's employee share, option and performance right schemes and succession planning.

The Board's Human Resources Committee comprises three members, all of whom are independent non-executive directors. These are:

- Mr Ken Roberts (Chairman);
- Dr. Arthur Webster; and
- Mr John Akehurst.

Mr John Akehurst replaced Mr Ian Renard (formerly a member of the Human Resources Committee) during the course of the year. Mr Kelvin Milroy, the General Manager – Human Resources, acts as Secretary of the Committee. The Board Chairperson may attend any meeting of the Committee in an ex officio capacity. The Managing Director, senior executives and professional advisors retained by the Human Resources Committee may attend meetings by invitation.

The Committee meets at the conclusion of the performance management process, at the conclusion of the succession planning process, and at other times as are required to discharge its responsibilities. Information about Committee meetings held during the year and individual directors' attendance at these meetings can be found in section 3 of this Directors' Report.

Any recommendation made by the Human Resources Committee concerning an individual director or executive's remuneration is made without that director or executive being present.

Non-Executive Directors' Remuneration

The Board's principal responsibility is the oversight of the management of the Company and providing strategic direction for and approving the Company's business strategies and objectives. Non-executive director remuneration is not linked to the Company's short-term financial performance and these directors are not entitled to performance based remuneration or participation in the Company's equity incentive plans.

Non-executive directors are entitled to fixed fees having regard to their Board responsibilities, obligations on any of the four Board committees and the aggregate non-executive director remuneration limit approved by shareholders. Within this limit, the Board determines the fees payable to non-executive directors based on advice from professional advisors which takes into consideration fees payable to non-executive directors by comparable organisations as well as fee levels which the Board considers appropriate to attract and retain high quality non-executive directors having regard to the Company's requirements.

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Currently, the Company's Constitution sets the maximum aggregate amount of remuneration which may be paid to non-executive directors at \$1,500,000. Any increases to this sum must be approved by shareholders at a general meeting. As contemplated by the Constitution, remuneration for any extra services by individual directors or the reimbursement of reasonable expenses incurred by directors may also be approved by the Board from time to time.

The table on page 8 of this Report sets out the fees paid to non-executive directors which amounted to \$1,021,876 and which was based on the following schedule:

NED Committee Fees effective 1 January 2005

	Board	Audit & Risk Management Committee	Human Resources Committee	Nomination Committee	Securities and Market Disclosure Committee
Chairman	250,000	25,000	15,000	-	-
Members	110,000	10,000	7,500	-	-

Non-executive directors participate in the Non-Executive Directors' Share Plan (the NED Share Plan) approved by shareholders at the 2002 annual general meeting. Under the NED Share Plan, non-executive directors take at least 20% of their fees in the form of shares in the Company which are purchased on-market at prevailing share prices. These purchases are made by the NED Share Plan administrator at pre-determined intervals.

In addition to fees paid in cash or taken in the form of shares, non-executive directors also receive superannuation contributions equal to 9% of their fees.

Non-executive directors were entitled to a retirement allowance as approved by shareholders in 1994 equal to the highest fees over any consecutive 36 months of service. If the director had served more than five years on the Board, they would receive another 5% of the base fee at the time of retirement for every additional year served, up to a limit of 15 years. The Board terminated this retirement plan as at 31 December 2003 and froze the retirement allowance as at that date. No Non-executive Director has accrued any entitlement to any retirement allowance since 31 December 2003.

Executive Remuneration Structure

Remuneration Policy

The Company's remuneration policy is designed to be competitive and equitable and to attract and retain high quality employees. The aim of the policy is to provide executives (including executive directors and the Company Secretary) with an appropriate balance of fixed and performance related remuneration.

Fixed remuneration is set at a level competitive with market rates and the performance component ensures that a significant proportion of executive remuneration is at risk by being linked to the achievement of corporate objectives, business performance and shareholder returns. The performance component may also include elements of remuneration designed to encourage retention.

Where appropriate, the Human Resources Committee considers independent external advice in setting both the balance of fixed and performance remuneration and the remuneration levels.

Remuneration Structure

The Company's remuneration structure comprises three core elements:

- fixed remuneration
- short-term incentives
- long-term incentives

Together, these elements comprise an executive's total potential remuneration.

Broadly, an executive will have fixed remuneration and a short-term incentive percentage representing the executive's potential short-term incentive as a percentage of fixed remuneration. Under the Company's performance management system, this percentage ranges from 15% to 50% of fixed remuneration depending on an executive's seniority level. In addition, an executive may participate in specific one-off Board approved incentive arrangements relating to key corporate objectives, milestones or events.

An executive will also have a long term incentive percentage which is multiplied by their fixed remuneration to derive a long-term incentive amount. This amount influences the level of options or performance rights which may be allocated to an eligible executive under the Company's equity incentive arrangements. The long-term incentive percentage generally reflects an executive's short-term incentive percentage and hence also ranges from 15% to 50% of fixed remuneration.

The short-term and long-term incentive arrangements are discussed further on pages 5 and 6 of this Report.

Subject to specific industry or geographical labour market conditions, the short-term and long-term incentive percentages are the same and the proportion of performance related remuneration to an executive's total potential remuneration is kept consistent for a given level of seniority. As an executive's seniority level increases, so do the incentive percentages and the proportion of performance related remuneration to that executive's total potential remuneration.

CSL's performance management system is central to how the Company manages performance related remuneration and its integration into the total remuneration structure. The extent to which executives meet or exceed the performance objectives as set out in the performance management system influences the calculation of short-term incentives as well as executives' ability to participate in the Company's long-term incentive programs. Performance as measured under the performance management system is also taken into consideration in reviewing fixed remuneration.

The total remuneration levels for executive directors and specified executives are illustrated in the tables on pages 8 and 9 of this Report. The balance of fixed and performance related remuneration for executive directors and specified executives is illustrated in the table on page 10 of this Report.

Fixed Remuneration

Depending on the country in which the executive is employed, an executive's fixed pay is expressed as a "Total Employment Cost" ("TEC") or as "salary plus benefits".

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Where a TEC approach is adopted, an executive's fixed remuneration comprises benefits the executive has elected to receive in lieu of salary inclusive of any associated costs such as fringe benefits tax and mandatory superannuation with the balance taken as cash salary. Where a "salary plus benefits" approach is adopted, the salary is specified and the Company provides benefits to an executive consistent with the labour market practices in that jurisdiction.

Executives who are working in a country other than their usual country of residence are eligible to receive benefits in accordance with the Company's expatriate policies. CSL's expatriate arrangements are intended to recompense an executive for the additional commitment and costs associated with working in a different country. The Human Resources Committee periodically reviews these arrangements to ensure appropriateness and consistency with market practices.

The level of fixed remuneration paid to each executive is based on the executive's skills and experience, the requirements for their role and their relevant labour market in terms of the particular industry and geographical location.

In setting fixed remuneration, the executive's total potential remuneration is taken into consideration to ensure appropriateness of the balance between fixed and performance related remuneration and also appropriateness of the resulting total potential remuneration level.

Executive fixed remuneration is reviewed annually to ensure that it remains market competitive for each executive and reflects any changes in an executive's role or relevant employment market conditions. The executive's performance as evaluated against objectives under the Company's performance management system significantly influences recommendations relating to fixed remuneration.

Any recommendations concerning senior executive fixed remuneration levels are made by the Human Resources Committee to the Board for the Board's consideration.

All executives, excluding directors, are eligible to participate in the CSL Global Employee Share Plan on the same terms and conditions as all other employees. A description of this Plan is set out in note 28 "Employee Benefits" of the financial statements.

Short-term Incentives

Short-term incentives may be awarded to employees based on their annual performance as evaluated under the CSL performance management system. In addition, the Human Resources Committee may recommend the establishment of specific incentive programs linked to the achievement of key corporate objectives, milestones or events. Short-term incentives are paid in cash.

All executive directors and specified executives are eligible to receive an annual incentive under the Company's performance management system. This system facilitates consideration of appropriate performance metrics by the Company and by executives and provides the mechanism for the payment of incentives linked to measurable gains in the achievement of the Company's corporate objectives.

Under the performance management system, usually no more than 6 key performance objectives for a financial year are specified along with actions to achieve the stated objectives and indicators or measures to be applied in assessing an executive's performance against the objectives.

Typically, the performance objectives comprise elements relating to individual performance (specific business tasks), the performance of the relevant business division or function depending on the executive's role (eg revenue, cost targets) and in some cases, that of the CSL group. Importantly, consistent with the philosophy of the short-term incentive percentage representing the potential short-term incentive, performance is assessed against the extent to which these objectives are exceeded and not simply met. As discussed below, the objectives directly relate to the corporate objectives, strategic plans and financial budgets approved by the Board.

Accordingly, the specific short-term incentive objectives vary from executive to executive both in terms of their nature and the weighting of these objectives in accordance with the Company's priorities.

In relation to process, the Board approves the corporate objectives, strategic plans and financial budgets. The Board also approves the Managing Director's specific performance objectives established with reference to the Board approved corporate objectives, plans and budgets. The Managing Director specifically approves the performance objectives for other executives which are also based on the Board approved corporate objectives, plans and budgets and which are also linked to the Managing Director's performance objectives.

Annual performance objectives and assessment criteria are established consistent with the corporate objectives and business plans approved by the Board and the responsibilities of the executive's position. Upon completion of the annual performance period, performance reviews are then conducted. Proposed incentive payments are then derived from this process having regard to the established performance objectives and assessment criteria. The Human Resources Committee or Board then considers the proposed incentive payments for approval.

In relation to one-off incentive programs, two programs were approved by the Board during the year. A retention incentive was approved payable to certain executives who remained with the CSL Group until successful completion of the sale of JRH Biosciences provided the business unit met and continued to meet specific business performance targets. The Board approved on 16 March 2004 an incentive linked to the successful integration of ZLB Behring based on integration metrics approved by the Board which were previously used to evaluate the Aventis Behring acquisition.

As with proposed incentive payments under the Company's performance management system, any proposed payments under the one-off incentive programs are considered for approval by the Human Resources Committee or Board.

Further details relating to payments under the short-term incentive programs are set out on pages 8 and 9 of this Report.

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Long-term Incentives

Long-term incentives are reserved for employees who have performed to a required performance level and who are regarded as being of strategic operational importance to the Company and for prospective key employees. The Company used the CSL Performance Rights Plan approved by shareholders at the 2003 annual general meeting for this purpose during the financial year.

Performance Rights Plan

The number of Performance Rights issued to an executive is dependent upon an executive's long term incentive percentage and the Company's share price. In the case of Executive Directors, any allocations of Performance Rights are also subject to shareholder approval. Shareholder approval was obtained at the 2003 annual general meeting for up to 350,000 performance rights to be issued in total to Dr Brian McNamee and Mr Tony Cipa over three years.

During the financial year, Performance Rights were granted as equity compensation benefits to executive directors and specified executives on the basis that they were strategically operationally important employees who had performed to a required performance level as evaluated under the Company's performance management system.

The Performance Rights were issued for no consideration. Each Right entitles the holder to subscribe for one fully paid ordinary share in the entity for either nil or nominal consideration. A Performance Right may only be exercised when it has become a Vested Performance Right. Unvested Performance Rights cannot be exercised and lapse on termination of employment. Vested Performance Rights can be exercised from the date they become Vested Performance Rights until they lapse which is 7 years from their issue date.

Performance Rights may become Vested Performance Rights if the Company satisfies specific Performance Hurdles during specified Performance Periods.

The minimum Performance Period is 3 years. If all eligible Performance Rights do not vest at the end of this period, performance may be reassessed at one-yearly intervals for up to a further two years. Any Performance Rights which remain unvested after the last reassessment lapse.

The Board believes that a three year performance period is an appropriate minimum time-frame over which executives should be assessed in relation to the achievement of long-term corporate objectives.

If Performance Rights remain unvested at the end of this period, performance is tested again a year later over at least a 4 year performance period. If the Performance Hurdle is not fully met at this time, performance is subject to a final test one further year later over at least a 5 year performance period.

The measure used in the Performance Hurdle is the Company's Total Shareholder Return (TSR) relative to that of the companies comprising the ASX top 100 by market capitalisation (excluding companies with the GICS industry codes of commercial banks, oil and gas and metals and mining). The Peer Groups for various allocations were established on 1 October 2003, 31 March 2004 and 1 October 2004 and are stipulated in the documents evidencing the respective grants.

The Board's view is that TSR is an appropriate measure to assess long term performance as this measure closely reflects shareholder requirements in terms of share price growth and distributions. Also, the extent to which longer-term corporate objectives are achieved should be reflected in the Company's share price and dividend paying capacity by this time.

Given the Company's relevant capital markets, the Board's view is that the Peer Group best represents the jurisdiction and also the companies with which CSL competes for capital. As the Company is employing a relative TSR measure, the Board's opinion was to exclude from the Peer Group companies operating in distinctive industries not relevant to CSL (such as mining companies).

The Performance Hurdle is defined so that a proportion of Performance Rights vest when a minimum target is reached and this proportion increases as performance exceeds the minimum target.

In relation to Performance Rights granted to date, if the Company's performance in terms of TSR ranking places it below the 50th percentile at every Test Date, none of the Performance Rights will vest. Where the Company is placed at or above the 75th percentile on any Test Date, all of the Performance Rights, which have reached or exceeded the minimum Performance Period of 3 years will vest. 50% of the eligible Performance Rights vest upon CSL being ranked at the 50th percentile with the balance vesting on a straight line basis between the 50th and 75th percentiles. The data used to assess performance is provided by external advisors.

SESOP II

The Senior Executive Share Ownership Plan II ("SESOP II") has previously been used for the purpose of delivering long-term incentives. SESOP II was approved by special resolution at the annual general meeting of the Company on 20 November 1997.

Under this program, options were issued for a term of seven years and began to be exercisable, subject to satisfying the performance hurdle, after the third anniversary of the date of grant. An allocation could be fully exercisable after 5 years. The exercise price was calculated using the weighted average price over the 5 days preceding the issue date of the option.

For the options to be exercisable, a performance hurdle relating to earnings per share for CSL ordinary shares must be met. Specifically, for the period from the financial year preceding the grant of options until the financial year prior to the date of exercise, pre-abnormal earnings per share must increase by seven percent compound per annum. Either none or all of the options are exercisable depending upon whether this target is achieved.

In addition, there is also an individual employee hurdle requiring an executive to obtain for the financial year prior to exercise of the options, a satisfactory rating under the Company's performance management system.

In relation to grants of options made in previous financial years, the Board's view was that an earnings per share performance hurdle was most appropriate given a key approved corporate objective of pursuing sustainable growth.

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Under the rules of SESOP II, participants may be provided with a loan to fund the exercise of the options. Consequently, no loan is made to the recipients of options until the option is exercised and no amounts are recorded in receivables until the option is exercised. Interest equivalent to the after-tax cash amount of dividends on the underlying shares (excluding the impact of imputation and assuming a marginal income tax rate of 48.5%) is charged on the loan.

No options were issued under SESOP II during the 2005 financial year.

The table below indicates the Company's annual compound growth in earnings per share (EPS) from various base financial years. Options granted under SESOP and SESOP II are subject to the hurdle of 7% annual compound growth in such earnings.

SESOP Allocation	Financial Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	
	1997	21%	24%	17%	16%	19%	23%	10%	24%	33%
	1998		27%	16%	15%	18%	24%	9%	24%	34%
	1999			6%	9%	15%	23%	5%	24%	35%
	2000				13%	20%	29%	5%	28%	41%
	2001					28%	38%	3%	32%	47%
	2002						50%	-8%	33%	52%
	2003							-43%	26%	53%
	2004								179%	152%
2005									128%	

Irrespective of the base year, every allocation of options has to date satisfied the performance hurdle between when the options became first exercisable and their expiry date. Accordingly, except for options lapsing in accordance with the Rules (eg termination of employment) all options that have met the time-related vesting requirements have vested.

As mentioned earlier in this Report, short-term incentives are principally managed by the Company's performance management system. Also, until July 2003, long-term incentives were delivered through SESOP and SESOP II using options having an EPS hurdle. Accordingly, until July 2003, there is no direct link between TSR and performance related pay except to the extent that EPS may influence TSR.

Since October 2003, the Company has provided long-term incentives using Performance Rights which have a TSR hurdle. While no Performance Period has yet completed for any allocation, the table below summarises the prospect of Performance Rights vesting given the Company's relative TSR performance over the Performance Period to date.

Peer Group Establishment Date	Company TSR ¹	Percentile Rank ^{1,2}	Rights Vesting ²
1 October 2003	119%	99	100%
31 March 2004	65%	92	100%
1 October 2004	22%	74	98%

¹Test date of 31 March 2005 being the most recent periodical update to participants

²All Performance Rights vest at the 75th percentile

Director and Executive Contracts

Non Executive Directors

Non-executive directors are subject to ordinary election and rotation requirements as stipulated in the ASX Listing Rules and the Company's Constitution. Accordingly, there are no specific employment contracts with non-executive directors.

Executive Directors and Specified Executives

Each contract outlines the key terms of employment including the executive's fixed remuneration. The potential short term incentive may also be stipulated in the contract or be governed by the Company's remuneration structure which governs the level of short-term incentives applicable to seniority levels.

It is the Company's general practice that employment contracts for executive directors and specified executives do not have a fixed term. Except for Mr Tom Giarla who is on a fixed term contract expiring on 31 January 2006, all of the executive directors' and specified executives' employment contracts do not have a fixed term.

It is the Company's policy that employment contracts for executive directors and specified executives contain provisions for termination with notice or payment in lieu thereof and for termination by the Company without notice for serious misconduct and breach of contract.

Certain executive directors and specified executives may be entitled to receive a termination payment in addition to notice where the Company terminates employment with the executive. In all circumstances, termination payments are not required to be made where termination of employment by the Company occurs for serious misconduct and breach of contract.

The notice period required to be given by the employee or the Company along with any termination payments to which they may be eligible are set out in the table below. With the exception of Tom Giarla whose termination payment may include potential bonuses, termination payments for all executive directors and specified executives are expressed in months and calculated by reference to TEC or salary (excluding benefits) which the executive would have earned over that time.

	Notice Period by Company	Notice Period by Employee	Termination Payments
Executive Directors			
B A McNamee	6 months	6 months	12 months
A M Cipa	6 months	6 months	12 months
Specified Executives			
P Turner	6 months	6 months	12 months
C Armit	6 months	6 months	6 months
P Bordonaro	3 months	3 months	12 months
A Cuthbertson	6 months	6 months	12 months
P Turvey	6 months	6 months	12 months
K Milroy	3 months	3 months	12 months ¹
A Martinez	6 months	6 months	12 months
M Sontrop	3 months	3 months	12 months
H Strenger	3 months	3 months	12 months
T Giarla	3 months	3 months	12 months plus bonus potential

¹ Estimated; termination payment is actually based on terms expressed as 5 weeks per year of service (for 5 years) plus 3 weeks for year thereafter to maximum of 15 years.

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Director and Executive Remuneration

Director Remuneration

– Audited Section

		Primary			Post employment		Equity		Total
		Cash salary and fees ³	Cash Bonus ⁴	Non-Monetary Benefits	Super-annuation	Retirement Benefits	Performance Rights ⁵	Options ⁵	
		\$	\$	\$	\$	\$	\$	\$	\$
Executive Directors									
Dr B A McNamee	2005	1,257,993	1,300,000	68,678	40,202	-	246,680	-	2,913,553
<i>Managing Director</i>	2004	947,207	482,500	79,635	44,254	-	65,522	-	1,619,118
A M Cipa	2005	508,020	495,000	2,565	42,531	-	138,349	31,269	1,217,734
<i>Finance Director</i>	2004	406,552	176,000	2,645	33,448	-	40,197	92,500	751,342
Non-executive Directors									
P H Wade	2005	235,000	-	-	21,150	-	-	-	256,150
<i>Chairman</i>	2004	210,000	-	-	18,900	-	-	-	228,900
J Akehurst ¹	2005	108,750	-	-	9,788	-	-	-	118,538
<i>Non-executive director</i>	2004	25,000	-	-	2,250	-	-	-	27,250
E A Alexander	2005	127,500	-	-	11,475	-	-	-	138,975
<i>Non-executive director</i>	2004	110,000	-	-	9,900	-	-	-	119,900
I A Renard	2005	118,750	-	-	10,688	-	-	-	129,438
<i>Non-executive director</i>	2004	107,500	-	-	9,675	-	-	-	117,175
M A Renshaw ²	2005	110,000	-	-	9,900	-	-	-	119,900
<i>Non-executive director</i>	2004	-	-	-	-	-	-	-	-
K J Roberts	2005	120,000	-	-	10,800	-	-	-	130,800
<i>Non-executive director</i>	2004	105,000	-	-	9,450	-	-	-	114,450
A C Webster	2005	117,500	-	-	10,575	-	-	-	128,075
<i>Non-executive director</i>	2004	103,750	-	-	9,338	-	-	-	113,088
Total of all Directors	2005	2,703,513	1,795,000	71,243	167,109	-	385,029	31,269	5,153,163
	2004	2,015,009	658,500	82,280	137,215	-	105,719	92,500	3,091,223

¹ Mr J Akehurst commenced 1 April 2004

² Mr M A Renshaw commenced 20 July 2004

³ As disclosed on page 4 of this Report under the section titled “Non-Executive Director Remuneration”, non-executive directors participate in the NED Share Plan under which non-executive directors take at least 20% of their fees in the form of shares in the Company which are purchased on-market at prevailing share prices.

⁴ As disclosed on page 5 of this Report under the section titled “Short-term Incentives”, executive directors were entitled to receive one-off bonuses linked to meeting performance objectives relating to the successful integration of ZLB Behring.

Of the \$1,300,000 cash bonus to Dr B A McNamee, \$650,000 resulted from his annual performance as evaluated by the Board under the Company’s performance management system and \$650,000 was awarded in relation to the one-off Board approved ZLB Behring integration program.

Of the \$495,000 cash bonus to A M Cipa, \$275,000 was awarded as a result of his annual performance under the Company’s performance management system as approved by the Board and \$220,000 was awarded in relation to the one-off Board approved ZLB Behring integration program.

In relation to the ZLB integration bonus, the bonus was dependant upon achieving 95% of the earnings and cash flow integration targets based on integration metrics used by the Board to evaluate the Aventis Behring acquisition.

⁵ The options and rights have been valued using a combination of the Binomial and Black Scholes option valuation methodologies as at the grant date adjusted for the probability of performance hurdles being achieved. This valuation was undertaken by PricewaterhouseCoopers.

The amounts disclosed in remuneration have been determined by allocating the value of the options and performance rights evenly over the period from grant date to vesting date in accordance with applicable accounting standards. As a result, the current year includes options that were granted in prior years and therefore disclosed as part of the executive director’s remuneration in prior years using the grant date basis of measurement.

CSL DIRECTORS' REPORT
Directors' Report

**Specified Executive Remuneration
– Audited Section**

		Primary			Post employment		Equity		Total
		Cash salary and fees ^{1,2}	Cash Bonus ^{1,3}	Non-Monetary Benefits	Super-annuation ¹	Retirement Benefits	Performance Rights ⁴	Options ⁴	
		\$	\$	\$	\$	\$	\$	\$	\$
Specified Executives									
P Turner <i>President - ZLB Behring</i> (based in United States)	2005	946,377	762,440	4,172	78,260	-	83,514	200,002	2,074,765
	2004	745,385	403,056	-	40,823	-	16,351	270,546	1,476,161
C Armit <i>President - CSL Pharmaceutical</i> (based in Australia)	2005	381,966	124,500	62,895	33,160	-	47,121	160,066	809,708
	2004	369,544	160,000	-	28,800	-	10,326	228,524	797,194
P Bordonaro <i>General Manager - CSL Bioplasma</i> (based in Australia)	2005	368,755	120,000	29,650	30,783	-	68,085	31,269	648,542
	2004	324,883	105,900	23,647	27,512	-	18,617	92,500	593,059
A Cuthbertson <i>Chief Scientific Officer</i> (based in Australia)	2005	324,772	105,000	53,614	24,747	-	37,166	173,777	719,076
	2004	290,000	72,500	10,987	-	-	7,852	193,165	574,504
P Turvey <i>Company Secretary and General Counsel</i> (based in Australia)	2005	366,197	294,000	31,859	48,740	-	58,319	126,414	925,529
	2004	295,392	101,100	20,558	40,440	-	9,435	170,013	636,938
K Milroy <i>General Manager - Human Resource</i> (based in United States)	2005	392,405	258,566	23,495	33,913	-	20,896	82,156	811,431
	2004	263,063	145,801	19,425	32,935	-	410	166,518	628,152
T Giarla <i>President - JRH Biosciences</i> (based in United States)	2005	481,889	1,574,604	9,663	29,382	-	20,747	98,628	2,214,913
	2004	384,809	182,252	34,307	15,421	-	-	169,800	786,589
A Martinez <i>Executive Vice President - Commercial Development</i> (based in United States)	2005	397,795	418,082	-	25,533	-	25,219	-	866,629
	2004	102,830	105,648	-	5,246	-	495	-	214,219
M Sontrop <i>Senior Vice President and Managing Director - Marburg</i> (based in Germany)	2005	534,478	427,700	2,725	45,652	-	21,976	66,836	1,099,367
	2004	385,656	213,776	-	34,762	-	431	146,378	781,003
H Strenger <i>Vice President and General Manager - Japan - ZLB Behring</i> (based in Japan)	2005	1,311,049	239,705	-	26,750	-	10,088	-	1,587,592
	2004	162,532	299,159	-	6,947	-	198	-	468,836
Total Specified Executives	2005	5,505,683	4,324,597	218,073	376,920	-	393,131	939,148	11,757,552
	2004	3,324,094	1,789,192	108,924	232,886	-	64,115	1,437,444	6,956,655

¹ Cash salary and fees, cash bonuses and superannuation paid in foreign currency have been converted to Australian dollars at the average exchange rate for the year ended 30 June 2005. Both the amount of remuneration and any movement in comparison to prior years may be influenced by changes in the respective currency exchange rates.

² Certain specified executives receive specific allowances in connection with the Company's expatriate remuneration policies as follows:

		Fixed Base Salary	Expatriate Allowances	Total Cash salary
		\$	\$	\$
Specified Executives				
P Turner	2005	846,928	99,449	946,377
K Milroy	2005	299,788	92,617	392,405
M Sontrop	2005	411,136	123,342	534,478
H Strenger	2005	600,686	710,363	1,311,049

Mr H Strenger's cash salary and fees includes payments relating to particular expatriate arrangements resulting from his previous contractual rights with Aventis Behring and the transition to CSL's expatriate policies.

³Included in cash bonuses are the following ZLB integration bonuses to key executives of the integration team: P Turner \$381,220; P Turvey \$126,000; K Milroy \$137,902; A Martinez \$198,897 and M Sontrop \$210,209.

T Giarla was entitled to receive a USD 300,000 non-compete payment (effective for up to 2 years) relating to the sale of JRH Biosciences and was also entitled to receive a USD 300,000 sign-on fee on entering into an employment agreement with CSL in lieu of further entitlements in connection with the sale of JRH Biosciences.

⁴ The options and rights have been valued using a combination of the Binomial and Black Scholes option valuation methodologies as at the grant date adjusted for the probability of performance hurdles being achieved. This valuation was undertaken by PricewaterhouseCoopers.

The amounts disclosed have been determined by allocating the value of the options and performance rights evenly over the period from grant date to vesting date in accordance with applicable accounting standards. As a result, the current year includes options that were granted in prior years and disclosed as part of the executive's remuneration in prior years using the grant date basis of measurement.

Directors' Report

Executive Director and Specified Executives Fixed and Performance Remuneration Components

Remuneration Components as a Proportion of Total Remuneration	Fixed Remuneration (not linked to company performance ¹)	Performance Related Remuneration				Total
		Cash Based STI ²	Equity Based		Total ³	
			Performance Shares	Performance Options		
Executive Directors						
B A McNamee	47%	45%	8%	0%	53%	100%
A M Cipa	45%	41%	11%	3%	55%	100%
Specified Executives						
P Turner	50%	37%	4%	9%	50%	100%
C Armit	59%	15%	6%	20%	41%	100%
P Bordonaro	66%	19%	10%	5%	34%	100%
A Cuthbertson	56%	15%	5%	24%	44%	100%
P Turvey	48%	32%	6%	14%	52%	100%
K Milroy	55%	32%	3%	10%	45%	100%
T Giarla	24%	71%	1%	4%	76%	100%
A Martinez	49%	48%	3%	0%	51%	100%
M Sontrop	53%	39%	2%	6%	47%	100%
H Strenger	84%	15%	1%	0%	16%	100%

¹Remuneration not linked to company performance means fixed remuneration as outlined in the section “Executive Remuneration Structure” on page 4 of this Report and comprises cash salary, superannuation and non monetary benefits (interest on loans).

As stated under the section “Fixed Remuneration” on page 4 of this Report, any recommendations concerning senior executive fixed remuneration levels are significantly influenced by the executive’s performance as assessed under the Company’s performance management system.

² Cash based STI includes any payments based on the executive’s performance under the Company’s performance management system as well as any payments pursuant to the specific one-off programs approved by the Board relating to the integration of ZLB Behring and the JRH Biosciences sale.

³ The balance between fixed and performance related pay, the relationship between short-term and long-term incentive percentages has been significantly influenced during the financial year as a result of cash based short term incentive payments in connection with the integration of ZLB Behring and the sale of JRH Biosciences.

In addition, aside from foreign currency influences, relativities have also been affected by the grants of Performance Rights for certain executives being recognised in the 2004 financial accounts and the proposed grant of Performance Rights which will be recognised in the 2006 financial accounts.

Directors' Report

Director and Specified Executives Performance Remuneration

	Short term incentive ¹		Estimates of the maximum remuneration amounts which could be received under the 2005 equity grants in future years ²			(A) Remuneration consisting of options ³	(B) Value at grant date ⁴	(C) Value at exercise date ⁵	(D) Total of columns (B) to (C)
	Percentage Awarded ¹	Percentage Not Awarded ¹	2006	2007	2008	%	\$	\$	\$
Executive Directors									
B A McNamee	100.0%	-	-	-	-	8%	-	1,692,000	1,692,000
A M Cipa	100.0%	-	-	-	-	14%	-	501,246	501,246
Specified Executives									
P Turner	100.0%	-	-	-	-	14%	-	153,186	153,186
C Armit	75.0%	25.0%	24,828	24,828	24,828	26%	24,960	1,427,200	1,452,160
P Bordonaro	75.0%	25.0%	-	-	-	15%	-	342,580	342,580
A Cuthbertson	75.0%	25.0%	-	-	-	29%	-	232,320	232,320
P Turvey	100.0%	-	-	-	-	20%	-	341,438	341,438
K Milroy	87.5%	12.5%	-	-	-	13%	-	219,940	219,940
T Giarla	100.0%	-	24,828	24,828	24,828	5%	24,960	454,320	479,280
A Martinez	100.0%	-	-	-	-	3%	-	-	-
M Sontrop	100.0%	-	-	-	-	8%	-	416,460	416,460
H Strenger	100.0%	-	-	-	-	1%	-	-	-

¹ Short term incentive awarded and not awarded relates to the period ended 30 June 2005 only.

As mentioned on page 5 of this Report under the section 'Short-term incentives', consistent with the philosophy of the short-term incentive percentage representing the potential short-term incentive is that performance under the performance management system is assessed in terms of the extent to which objectives are exceeded.

Accordingly, to be awarded 100% of short-term incentive, an executive is required to have exceeded all performance objectives. An executive who has obtained less than 100% of their incentive payment may have met all their objectives and exceeded some of their objectives but may not have exceeded all of the performance objectives.

² The balance between fixed and performance related pay and the relationship between long-term incentive pay and total remuneration has been significantly influenced during the financial year as a result of cash based short term incentive payments pursuant to the specific one-off programs approved by the Board in connection with the integration of ZLB Behring and the sale of JRH Biosciences.

In addition, relativities have also been affected by the grants of Performance Rights for certain executives being recognised in the 2004 financial accounts and the proposed grant of Performance Rights which will be recognised in the 2006 financial accounts.

³ The maximum value has been determined at grant date and amortised in accordance with the applicable accounting standard requirements. The minimum value of the grant is \$nil if the performance conditions are not satisfied. No options were granted during 2005.

⁴ The value at grant date has been determined by the share price at the close of business on grant date less the option exercise price times by the number of options granted during 2005.

⁵ The value at exercise date has been determined by the share price at the close of business on exercise date less the option exercise price times by the number of options exercised during 2005.

Directors' Report

Director and Specified Executives Options and Rights Holdings

Performance Rights

					Terms and Conditions for Performance Rights grants during 2005			
	Balance at 1 July 2004	Number Granted	Balance at 30 June 2005	Number Lapsed	Grant Date	Value per Right at Grant Date	First Exercise Date	Last Exercise Date
Executive Directors								
B A McNamee	70,000	-	70,000	-				
A M Cipa	40,000	-	40,000	-				
Specified Executives								
P Turner	24,800	-	24,800	-				
C Armit	8,400	6,000	14,400	-	25-Aug-04	\$20.69	30-Sep-07	25-Aug-11
P Bordonaro	20,800	-	20,800	-				
A Cuthbertson	11,100	-	11,100	-				
P Turvey	17,100	-	17,100	-				
K Milroy	5,800	-	5,800	-				
T Giarla	-	6,000	6,000	-	25-Aug-04	\$20.69	30-Sep-07	25-Aug-11
A Martinez	7,000	-	7,000	-				
M Sontrop	6,100	-	6,100	-				
H Strenger	2,800	-	2,800	-				
Total	213,900	12,000	225,900	-				

The Board has resolved to make grants of Performance Rights relating to the 2005 financial year subsequent to completing assessments under the Company's performance management system and annual reviews of executive remuneration levels. In relation to the 2004 financial year, grants of performance rights to a number of executive directors and specified executives were recognised in the 2004 financial statements. For this reason, only a small number of grants are being recognised this financial year.

SESOP and SESOP II Options

	Balance at 1 July 2004	Number Granted	Number Exercised	Number Lapsed	Balance at 30 June 2005	Number Vested
Executive Directors						
B A McNamee	100,000	-	100,000	-	-	-
A M Cipa	100,954	-	25,954	-	75,000	60,000
Specified Executives						
P Turner	185,192	-	10,192	-	175,000	80,000
C Armit	250,000	-	160,000	-	90,000	-
P Bordonaro	101,000	-	26,000	-	75,000	60,000
A Cuthbertson	135,000	-	48,000	-	87,000	-
P Turvey	125,924	-	25,924	-	100,000	40,000
K Milroy	84,000	-	14,000	-	70,000	21,000
T Giarla	139,500	-	36,000	-	103,500	72,000
M Sontrop	91,000	-	33,000	-	58,000	19,800
Total	1,312,570	-	479,070	-	833,500	352,800

In relation to the 2005 financial year, the Company used the CSL Performance Rights Plan approved by shareholders at the 2003 annual general meeting for long term incentive purposes. Accordingly, no options were issued under SESOP II during the financial year. The last grant of options under SESOP II was made in July 2003.

Directors' Report

Director and Specified Executives

Shares on Exercise of Options and Rights

	Date Options Granted ^{1,2}	Number of shares	Paid \$ per share	Unpaid \$ per share
Executive Directors				
B A McNamee	Nov-1997	100,000	8.93	-
A M Cipa	Jul-1998	5,954	10.82	-
	Jul-1999	20,000	13.23	-
Specified Executives				
P Turner	Jul-1998	10,192	10.82	-
C Armit	Feb-2000	160,000	23.07	-
P Bordonaro	Jul-1998	6,000	10.82	-
	Jul-1999	20,000	13.23	-
A Cuthbertson	Feb-2000	48,000	21.01	-
P Turvey	Jul-1998	5,924	10.82	-
	Jul-1999	20,000	13.23	-
K Milroy	Jul-1999	14,000	13.23	-
T Giarla	Jul-1999	36,000	13.23	-
M Sontrop	Jul-1999	33,000	13.23	-
Total		479,070		

¹ For all of the Options granted, the time-related vesting criteria was 60% of the allocation after 3 years from grant date, 20% after 4 years from grant and the balance of 20% after 5 years from grant date.

² Refer to the table on page 12 of this Report for the balance of options and performance rights held by executive directors and specified executives subsequent to exercise of the options and performance rights as set out above.

Director and Specified Executives Shareholding

	Balance at 1 July 2004	Options exercised during year	Other changes during year	Balance at 30 June 2005	Balance as of date of this Report
Directors					
B A McNamee	770,651	100,000	(527,140)	343,511	343,511
A M Cipa	8,468	25,954	(25,875)	8,547	8,547
P H Wade	28,490	-	2,420	30,910	31,267
J Akehurst	2,500	-	3,813	6,313	6,470
E A Alexander	5,215	-	1,301	6,516	6,673
I A Renard	5,342	-	1,031	6,373	6,530
M A Renshaw	-	-	659	659	816
K J Roberts	4,872	-	966	5,838	5,995
A C Webster	7,876	-	966	8,842	8,999
Specified Executives					
P Turner	2,050	10,192	-	12,242	12,242
C Armit	724	160,000	(49,814)	110,910	110,910
P Bordonaro	36,760	26,000	(36,000)	26,760	26,760
A Cuthbertson	30,379	48,000	(30,000)	48,379	48,379
P Turvey	30,734	25,924	(9,687)	46,971	46,971
K Milroy	31,304	14,000	(8,701)	36,603	36,603
T Giarla	40,500	36,000	(76,500)	-	-
A Martinez	-	-	121	121	121
M Sontrop	1,559	33,000	(32,704)	1,855	1,855
H Strenger	-	-	-	-	-
Total	1,007,424	479,070	(785,144)	701,350	702,649

Directors' Report

Loans to Directors and Specified Executives

Details of the aggregate of loans to Directors and Specified Executives are as shown:

		Opening Balance	Interest Charged	Interest not charged	Closing Balance	Number in group 30 June 2005
		\$'000	\$'000	\$'000	\$'000	
Directors	2005	1,882	71	71	941	2
	2004	1,893	51	133	1,882	2
Specified executives	2005	1,930	72	218	5,041	10
	2004	1,587	28	137	1,930	6
Total Directors and Specified Executives	2005	3,812	143	289	5,982	12
	2004	3,480	79	270	3,812	8

Details of individuals with loans above \$100,000 in the reporting period are as follows:

	Balance at 1 July 2004	Interest Charged	Interest not charged	Balance at 30 June 2005	Highest owing in period
	\$'000	\$'000	\$'000	\$'000	
Directors					
B A McNamee	1,834	70	69	893	2,727
Specified Executives					
P Turner	-	3	4	110	110
C Armit	-	14	63	2,537	2,537
P Bordonaro	462	15	30	330	791
A Cuthbertson	155	15	54	1,008	1,008
P Turvey	397	16	32	593	726
K Milroy	381	8	23	463	463
T Giarla	536	-	10	-	1,012
M Sontrop	-	-	3	-	437

All of the loans relate to SESOP and SESOP II under which executive directors and specified executives were provided with loans to fund the exercise of options. SESOP was terminated by the Company and there are no longer any outstanding options under SESOP. No grants of options have been made under SESOP II since July 2003.

Loans to executive directors and specified executives relating to SESOP are interest free. Loans relating to SESOP II are charged interest at a concessional average rate of 2%. This is based on interest being charged equivalent to the after-tax cash amount of dividends on the underlying shares (excluding the impact of imputation and assuming a marginal income tax rate of 48.5%). The average commercial rate of interest during the year was 7%.

16. Other Transactions and Balances with Directors and Specified Executives

The directors and specified executives and their related entities have the following transactions with entities within the consolidated entity that occur within a normal employee, customer or supplier relationship on terms and conditions no more favourable than those which it is reasonable to expect the entity would have adopted if dealing at arm's length in similar circumstances:

- The Company has a number of contractual research relationships with the University of Melbourne of which Mr Ian Renard is the Chancellor and Miss Elizabeth Alexander is the Chair of the Finance Committee and a member of the Council.
- The parent entity made contributions during the financial year to the CSL Superannuation Plan. Dr B A McNamee is a shareholder of the Plan's trustee company, but not a member of the Plan.

17. Indemnification of Directors and Officers

During the financial year, the insurance and indemnity arrangements discussed below were in place concerning directors and officers of the consolidated entity:

The Company has entered into a Director's Deed with each director regarding access to Board papers, indemnity and insurance. Each Deed provides:

- (a) an ongoing and unlimited indemnity to the relevant director against liability incurred by that director in or arising out of the conduct of the business of the Company or of a subsidiary (as defined in the Corporations Act) or in or arising out of the discharge of the duties of that director. The indemnity is given to the extent permitted by law and to the extent and for the amount that the relevant director is not otherwise entitled to be, and is not actually, indemnified by another person or out of the assets of a corporation, where the liability is incurred in or arising out of the conduct of the business of that corporation or in the discharge of the duties of the director in relation to that corporation;
- (b) that the Company will maintain, for the term of each director's appointment and for seven years following cessation of office, an insurance policy for the benefit of each director which insures the director against liability for acts or omissions of that director in the director's capacity or former capacity as a director of the Company; and
- (c) the relevant director with a right of access to Board papers relating to the director's period of appointment as a director for a period of seven years following that director's cessation of office. Access is permitted where the director is, or may be, defending legal proceedings or appearing before an inquiry or hearing of a government agency or an external administrator, where the proceedings, inquiry or hearing relates to an act or omission of the director in performing the director's duties to the Company during the director's period of appointment.

In addition to the Director's Deeds, Rule 146 of the Company's Constitution requires the Company to indemnify each "officer" of the Company and of each wholly owned subsidiary of the Company out of the assets of the Company "to the relevant extent" against any liability incurred by the officer in the conduct of the business of the Company or in the conduct of the business of such wholly owned subsidiary of the Company or in the discharge of the duties of the officer unless incurred in circumstances which the Board resolves do not justify indemnification.

For this purpose, "officer" includes a director, executive officer, secretary, agent, auditor or other officer of the Company. The indemnity only applies to the extent the Company is not precluded by law from doing so, and to the extent that the officer is not otherwise entitled to be or is actually indemnified by another person, including under any insurance policy, or out of the assets of a corporation, where the liability is incurred in or arising out of the conduct of the business of that corporation or in the discharge of the duties of the officer in relation to that corporation.

The Company paid insurance premiums of \$1,065,095.83 in respect of a contract insuring each individual director of the Company and each full time executive officer, director and secretary of the Company and its controlled entities, against certain liabilities and expenses (including liability for certain legal costs) arising as a result of work performed in their respective capacities, to the extent permitted by law.

18. Auditor independence and non-audit services

The company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the company and/or the consolidated entity are important.

Details of the amounts paid or payable to the entity's auditor, Ernst & Young for non-audit services provided during the year are set out below. The directors, in accordance with the advice received from the Audit and Risk Management Committee, are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The directors are satisfied that the provision of non-audit services by the auditor did not compromise the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services have been reviewed by the Audit and Risk Management Committee to ensure that they do not impact the impartiality and objectivity of the auditor
- none of the services undermine the general principles relating to auditor independence as set out in Professional Statement F1, including reviewing or auditing the auditor's own work, acting in a management or a decision making capacity for the company, acting as an advocate for the company or jointly sharing economic risks and rewards.

A copy of the auditors' independence declaration as required under section 307C of the Corporations Act 2001 accompanies this Report.

Directors' Report

Ernst & Young and its related practices received or are due to receive the following amounts for the provision of non-audit services:

Completion audits in relation to the JRH business unit disposal	\$508,103
Accounting advice and audit services in relation to AIFRS	\$67,500
Compliance audits and advice	<u>\$46,764</u>
	<u>\$622,367</u>

19. Rounding

The amounts contained in this report and in the financial report have been rounded to the nearest \$1,000 (where rounding is applicable) unless specifically stated otherwise under the relief available to the Company under ASIC Class Order 98/0100. The Company is an entity to which the Class Order applies.

This report has been made in accordance with a resolution of directors.

Signed

Peter H Wade (Director)

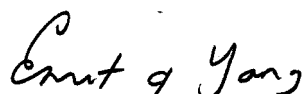
Signed

Brian A McNamee (Director)
Melbourne

24 August 2005

Auditor's Independence Declaration to the Directors of CSL Limited

In relation to our audit of the financial report of CSL Limited for the financial year ended 30 June 2005, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.



Ernst & Young



Ivan Wingreen
Partner
24 August 2005