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CSR Limited – review of results for the half year ended 30 September 2016

Trading revenue of $1.2 billion up 8% for the half year ended 30 September 2016

EBITDA[1] of $208.2 million up 9%

EBIT[1] of $165.0 million up 11%

- **Building Products** EBIT of $114.6 million up 29%, including consolidated EBIT from the PGH Bricks JV. Higher volumes across all products with increased margins reflecting improved pricing and market activity
- **Viridian** EBIT of $6.0 million, up from $2.3 million continuing the steady improvement over the last few years
- **Aluminium** EBIT of $39.5 million lower than the previous half year due to a lower realised aluminium price (including premiums)
- **Property** EBIT of $15.3 million which included a number of smaller transactions

Net profit after tax (before significant items)[1] of $103.1 million up 12%

Statutory net profit of $114.5 million, up 48% which included the benefit of $11.4 million (after tax) of significant items

Earnings per share[1] of 20.5 cents, up 12% from 18.3 cents

Interim unfranked dividend of 13.0 cents per share, up 13%

A$m (unless stated)	**HY17**	**HY16**	**change**
Trading revenue	**1,236.1**	1,144.5	8%
EBITDA [1]	208.2	190.6	9%
EBIT [1]	**165.0**	149.3	11%
Net finance income (cost) [1]	2.4	(2.5)	
Tax expense [1]	(48.1)	(37.7)	
Non-controlling interests [1]	(16.2)	(16.7)	
Net profit after tax [1]	**103.1**	92.4	12%
Significant items after tax	11.4	(14.8)	
Statutory net profit after tax	114.5	77.6	48%
Earnings per share[1] [cents]	**20.5**	18.3	12%
EPS (after significant items) [cents]	22.7	15.4	47%
Dividends per share [cents]	**13.0**	11.5	13%

[1] *All references are before significant items. They are non-IFRS measures and are used internally by management to assess the performance of the business and have been extracted or derived from CSR's financial statements for the half year ended 30 September 2016 (HY17). All comparisons are to the half year ended 30 September 2015 (HY16) unless otherwise stated.*

CSR FINANCIAL OVERVIEW

Higher earnings driven by strong performance from Building Products

CSR Limited ("CSR") reported today a 12% increase in net profit after tax (before significant items) to $103.1 million for the half year ended 30 September 2016.

Earnings before interest and tax (EBIT before significant items) of $165.0 million were up 11%. The results included the consolidated earnings of the PGH Bricks JV (60% owned by CSR prior to 31 October 2016) which began operations on 1 May 2015.

Statutory net profit after tax was $114.5 million, which included the benefit of $11.4 million (after tax) in significant items, including a tax refund related to the divestment of Sucrogen in December 2010. This was partly offset by integration costs relating to the formation of the PGH Bricks JV and the 'discount unwind' expense to record the asbestos-related provision in present value terms. This compares to statutory net profit of $77.6 million for the half year ended 30 September 2015.

Tax expense of $48.1 million (before significant items) was up from $37.7 million due to the increase in pre-tax profits. CSR's effective tax rate for the half year was 28.7% compared to 25.7% in the prior half year.

Net cash position of $77.6 million was up from $70.9 million as at 31 March 2016 following higher earnings and the net cash inflow from Property of $23.6 million during the period.

Capital expenditure (excluding Property and acquisitions) was $28.9 million during the half year. Of this total, $16.6 million was for stay-in-business projects and $12.3 million was development related capital expenditure including investment in the AFS Rediwall® manufacturing facility located at Minto, NSW and Viridian's commercial double glazing plant at Ingleburn, NSW.

In March 2016, CSR commenced an on-market share buy-back of its ordinary shares of up to $150 million. The timing of the buy-back and the number of shares to be purchased will depend on share price levels, cash flow generation and capital requirements and will continue over the financial years ending 31 March 2017 and 2018.

Dividends

The Company has resolved to pay an unfranked interim dividend of 13.0 cents per share on 13 December 2016. This represents a dividend payout ratio of 64% of net profit after tax (before significant items) in line with CSR's dividend policy to pay out 60-80% of full year net profit after tax (before significant items). For Australian tax purposes, 100% of the dividend will be conduit foreign income.

The Company's dividend reinvestment plan (DRP) will operate for the interim dividend payable on 13 December 2016. Shares will be acquired on-market and transferred to participants to satisfy any shares to be issued under the DRP. Further details of the DRP are available from the DRP Terms and Conditions on CSR's website (www.csr.com.au).

Product Liability

As at 30 September 2016, the asbestos provision fell to $324.6 million from $334.5 million as of 31 March 2016. This provision included a prudential margin of $63.8 million or 24.5% above the combined estimate of the independent experts in Australia and the United States. CSR paid asbestos related claims of $15.4 million (including legal costs) during the half year.

BUILDING PRODUCTS

Multi-residential housing continues to drive growth

Commencements	HY17	HY16	change
Australia			
Detached (6 month starts - 000s) [1]	56.1	59.4	-6%
Other residential (6 month starts - 000s) [1]	61.1	47.4	29%
Total Residential Commencements	**117.2**	106.8	10%
Non-residential (A$B) [2]	17.6	18.1	-3%
A&A (A$B) [2]	4.1	4.1	0%
NZ consents (6 month - 000s) [3]	**14.1**	12.5	13%

1. *Source ABS data – (two quarter lag – i.e. 6 months to March).*
2. *Source ABS, BIS Shrapnel forecast (value of work done – 6 months to September).*
3. *Source Statistics New Zealand - (residential consents 2 quarter lag – 6 months to March).*

Total residential commencements on a two quarter lag basis for the 6 months to 31 March 2016 grew by 10%, led by strong growth in the multi-residential sector. Detached housing continues its steady growth across key markets in New South Wales and Victoria. This was offset by the 27% decline in detached housing in Western Australia over the period.

The pipeline of residential construction activity over the next 12 -18 months is strong with detached housing commencements reaching a 10 year high in the June 2016 quarter. This activity combined with the extended lead times for completion of high rise apartments underpins continued good demand for CSR's products in the year ahead.

Higher volumes and improved pricing lift Building Products earnings

A$m unless stated [1]	HY17	HY16	change
Revenue	**817.2**	733.6	11%
EBITDA	138.6	111.6	24%
EBIT	**114.6**	89.0	29%
Funds employed[2]	917.2	904.7	1%
EBIT/revenue	14.0%	12.1%	
Return on funds employed[3]	21.2%	16.8%	

1. *Before significant items.*
2. *Excludes cash and tax balances and certain other non-trading assets and liabilities as at 30 September. A reconciliation of funds employed is included in Note 2 in the half year report.*
3. *Based on EBIT (before significant items) for the 12 months to 30 September divided by average funds employed.*

Trading revenue from Building Products was $817.2 million, up 11%, with higher volumes and improved margins across all products. The result includes 100% of the revenue from the PGH Bricks JV.

EBIT was up 29% to $114.6 million with earnings growth across all divisions, reflecting the benefit of higher sales volumes, price increases and improved factory performance.

EBIT margin increased to 14.0%, up from 12.1% as improved volume, pricing and product mix flowed through to earnings.

SUMMARY OF BUILDING PRODUCTS BUSINESS UNIT PERFORMANCE

GYPROCK™	**Gyprock** increased earnings with higher volumes reflecting the improved residential construction market while average selling prices increased in all states. Gyprock maintained its market-leading brand position following the successful launch of its Optimised Core Technology across its core residential product lines. Gyprock continues to expand its customer service experience including new delivery services and notifications, expansion of technical support across all states and investment in three new Gyprock Trade Centre locations in NSW and Queensland.
cemintel CREATE AND CONSTRUCT	**Cemintel** fibre cement earnings were higher with increased volumes across the east coast offset by investment in initiatives to develop the market for new external cladding products in residential and commercial construction.
hebel® The better way to build	**Hebel** continued to increase earnings following strong activity in the multi-residential market, growing demand from the detached housing market and growth from new product innovations.
AFS WALLING SOLUTIONS	**AFS** walling systems including Logicwall® fibre cement and Rediwall® PVC continue to perform well in line with increased demand from the multi-residential market. The Rediwall® manufacturing facility located at Minto, NSW commissioned last year is performing well. AFS also expanded its network in the Queensland market with a new distribution and customer service facility located in Brisbane.
Bradford™ more than insulation	**Bradford** earnings increased with higher volumes across all product groups underpinned by strong market activity and improved pricing. The business continues to expand following a number of new product launches including the Bradford Black hypoallergenic and soft touch insulation. Bradford Energy Solutions also launched alliances with a number of major builders to provide a solar PV offering with Tesla batteries.
MONIER™	**Monier** roofing earnings grew during the period with increased volumes reflecting strong demand from the detached housing market in NSW and Victoria.
PGH BRICKS & PAVERS™	**PGH Bricks'** earnings were higher with improved margins across the east coast markets compared to the prior half year. The integration of the two businesses is largely completed and is on track to deliver the full year benefit of ~$10 million in annualised synergies in the financial year ending 31 March 2017.

Viridian

Earnings higher following improved pricing

A$m unless stated [1]	HY17	HY16	change
Revenue	189.3	151.8	25%
Revenue (adjusted for NZ JV acquisition)[2]	**167.1**	151.8	10%
EBITDA	11.7	7.2	63%
EBIT	**6.0**	2.3	161%
Funds employed[3]	250.8	191.1	31%
EBIT/revenue	3.2%	1.5%	
Return on funds employed[4]	5.3%	2.6%	

1. *Before significant items.*
2. *Excludes three months of revenue (1 July to 30 September 2016) from the NZ Viridian Glass Limited Partnership (VGLP) following CSR's acquisition of the remaining 42% stake on 30 June 2016.*
3. *Excludes cash and tax balances and certain other non-trading assets and liabilities as at 30 September. A reconciliation of funds employed is included in Note 2 in the half year report.*
4. *Based on EBIT (before significant items) for the 12 months to 30 September divided by average funds employed.*

Trading revenue of $189.3 million was up 10% on an adjusted basis, with improved pricing and increased volumes from higher margin products. The adjusted revenue excludes three months of revenue from NZ Viridian Glass Limited Partnership (VGLP) following CSR's acquisition of the remaining 42% stake in the JV completed on 30 June 2016.

EBIT of $6.0 million was up from $2.3 million which includes the contribution of a number of bolt-on acquisitions.

Viridian is targeting increased volumes in the residential market from double glazing and coated products following the successful launch of the Lightbridge™ double glazing product.

Commercial market exposure is also increasing with an expanded product and service offering for larger commercial projects. A number of operational changes are nearing completion to deliver efficiencies and improve service including commissioning of a dedicated commercial double glazing plant in Ingleburn, NSW and a new commercial glass processing plant in Canberra.

The consolidation of Viridian's New Zealand operations in Auckland has been completed with the opening of the new processing plant in Highbrook on 16 September 2016. By taking full control, Viridian will benefit from further improvements in the New Zealand operations as restructuring of the business continues over the next year.

ALUMINIUM

Earnings impacted by lower aluminium prices

A$m unless stated [1]	HY17	HY16	change
Sales (tonnes)	97,007	98,634	-2%
A$ realised price[2]	2,367	2,627	-10%
Revenue	**229.6**	259.1	-11%
EBITDA	52.6	68.2	-23%
EBIT	**39.5**	54.7	-28%
Funds employed[3]	170.0	196.4	-13%
EBIT/revenue	17.2%	21.1%	
Return on funds employed[4]	48.5%	61.7%	

1. *Before significant items.*
2. *Realised price in A$ per tonne (including hedging and premiums).*
3. *Excludes cash and tax balances and certain other non-trading assets and liabilities as at 30 September. A reconciliation of funds employed is included in Note 2 in the half year report.*
4. *Based on EBIT (before significant items) for the 12 months to 30 September divided by average funds employed.*

The realised aluminium price in Australian dollars (including hedging and premiums) was down 10% to A$2,367 per tonne following a decline in the LME aluminium price and premiums.

The LME aluminium cash price before hedging averaged US$1,597 per tonne, down 5% compared to the prior half year; while the Australian dollar was reasonably steady at US75.2 cents.

The average ingot premium for the half year period was US$104 per tonne, down 56% (Premiums source: Platts Metals Week – Main Japanese Port ingot premium).

Gove Aluminium Finance (GAF – 70% CSR) sales volumes of 97,007 tonnes were down 2% due to timing of shipments. Trading revenue of $229.6 million was down 11% from the prior half year due to the 10% reduction in the realised aluminium price.

EBIT of $39.5 million was down 28% due to the lower realised aluminium price and sales volumes. This was partly offset by lower alumina, coke and pot relining costs and improved operational performance from the Tomago smelter.

PROPERTY

Property transactions continue to deliver earnings

A$m unless stated [1]	HY17	HY16	change
EBIT	**15.3**	16.2	-6%
Funds employed[2]	125.5	140.0	-10%
Return on funds employed[3]	16.9%	19.6%	

1. *Before significant items.*
2. *Excludes cash and tax balances and certain other non-trading assets and liabilities as at 30 September. A reconciliation of funds employed is included in Note 2 in the half year report.*
3. *Based on EBIT (before significant items) for the 12 months to 30 September divided by average funds employed.*

CSR's Property division recorded EBIT of $15.3 million, down just under $1 million from the prior half year. The result includes a number of smaller transactions including the sale of industrial land at Clayton, VIC and the final tranche of industrial land at Erskine Park, NSW.

Construction continues on stages 4 and 5 of the 533-lot residential development at Chirnside Park with 161 sales contracts exchanged as of 30 September 2016.

OUTLOOK

Looking at the outlook for the year ending 31 March 2017 (YEM17), CSR confirmed:

- **Building Products** expected to deliver year-on-year earnings growth bolstered by continued solid activity in residential construction on the east coast of Australia. Given current construction indicators and longer lead times from approval to construction, CSR expects demand for its building products to remain at current levels over the near term.

- **Viridian** is expected to increase earnings following the benefit of recent acquisitions combined with improvements in its commercial market position.

- **Aluminium** currently has 78% of the net aluminium exposure for the second half of YEM17 hedged at an average price of A$2,310 per tonne (excluding ingot premiums) as of 31 October 2016. Ingot premiums, which are paid to producers above the LME aluminium price, appear to have reached a floor at US$75 per tonne (Main Japanese Port ingot premium).

- **Property** earnings in the second half will be largely derived from settlements at the Chirnside Park, VIC residential development in addition to other transactions under negotiation. As a result, Property EBIT is expected to be $20-25 million, subject to the timing of transactions.

CSR expects that group net profit after tax (before significant items) for YEM17 will be at the top end of the current range of analysts' forecasts of $154 million to $184 million (before significant items).

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