



## CSR Building Products Site Tour – 29 July 2004



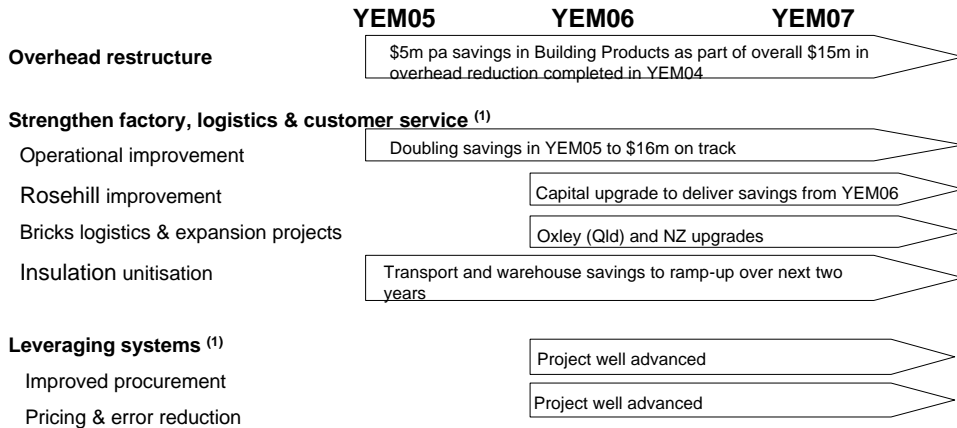
**Alec Brennan  
Managing Director  
CSR Limited**

### CSR Building Products key strategies

Focus on 'back to basics' approach for all businesses

- ❑ Strengthen factory, logistics and customer service capabilities
- ❑ Better leverage systems through common processes and improved tracking of performance
- ❑ Reconfigure brand positioning to support strategy of a strong portfolio of brands
- ❑ Actively seek growth opportunities through acquisition and new products and range extensions
- ❑ Build distinctive skills in service delivery

# Key initiatives for performance improvement



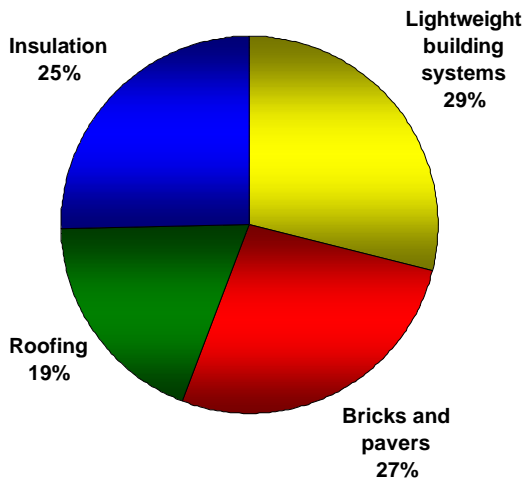
(1) \$5 million will be expensed in YEM05 on systems, maintenance and market initiatives to deliver benefits in YEM06 and beyond.

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# \$16m of operational improvement in YEM05

Over 100 separate operational improvement projects in process to deliver \$16m of cost benefits in YEM05



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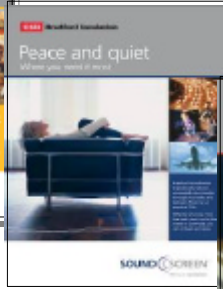
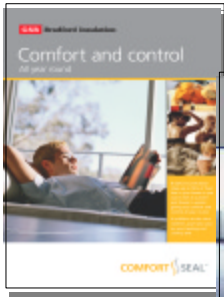
## Three year plan to lift margins

- ❑ **Targets in place to improve cost position well above impact of inflation**

Three year plan – total improvements	\$75 million
Cumulative three year impact of inflation	<u>\$50 million</u>
Net improvement	\$25 million

- ❑ **Cost improvement strategy aimed at increasing margins by 2-3% without relying on price**
- ❑ **We continue to expect housing starts to slow by 5% this year. As a result, YEM05 Building Products result should be in line with YEM04 due to efficiency gains and cost improvements**

# CSR Insulation Systems



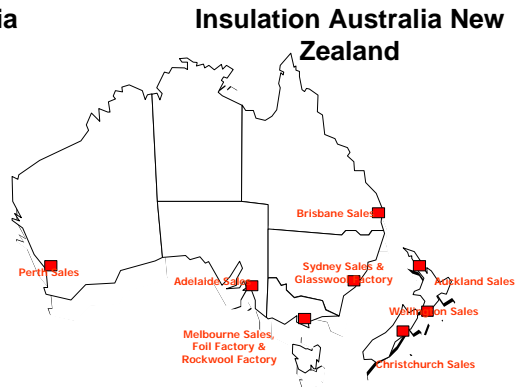
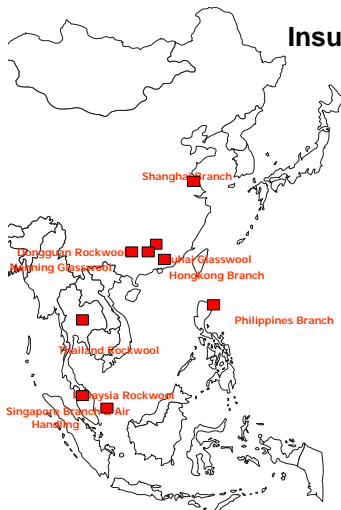
**John Hodgkinson**

**Executive General Manager**



**Bradford Insulation**

## Largest manufacturer of insulation in Asia/ANZ region



**Bradford Insulation**

# The Insulation industry has strong growth prospects

## Increasing Environment Awareness

Global warming and greenhouse gas issues are encouraging governments and companies to recognise the social costs and reduce energy consumption

## Growing Focus on Sustainable Development

Glasswool (made from recycled glass) and Rockwool (made from abundantly available basalt rock) increase life of a manufacturing plant/ building, contributing to sustainable development

## Rising Energy Cost

Rising energy costs due to growing demand and shortage of low cost fossil fuels is encouraging companies to reduce energy consumption

- Demand for Glasswool and Rockwool insulation products is likely to grow as they provide an important role in managing three key global issues
- Average growth of insulation products is expected to be higher than GDP till 2011

Source: World Insulation – Industry Study, Freedonia Group; Industry experts; Industry association websites

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## CSR's Insulation operations

- ❑ YEM04 revenue of \$150 million
- ❑ # 1 position in the insulation market in Australia
- ❑ # 2 position in the New Zealand insulation market
- ❑ # 1 position in South China high quality insulation market
- ❑ # 1 position in S.E. Asia insulation market
- ❑ Three plants in Australia; Glasswool, Foil and the only Rockwool plant in Australia
- ❑ Seven plants operated in Asia 2 Glasswool, 3 Rockwool, 1 ALC and 1 air handling



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## CSR Insulation has had long term successful exposure to Asian markets

- ❑ Entered the Malaysian insulation market in 1983
- ❑ Started in Thailand and China in the mid 1990's
- ❑ Original investment was high and has struggled to give good returns
- ❑ The outlook in China, in particular, is very positive
- ❑ Now operate seven factories in China, Malaysia and Thailand along with a well positioned sales & distribution network



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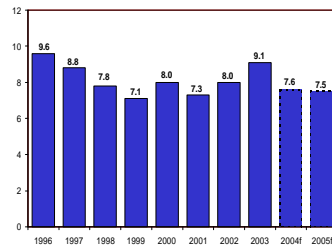
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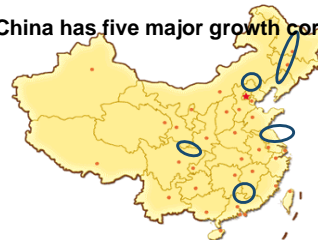
## China offers significant opportunities for growth

- ❑ Since the opening of China in 1978, the real economic growth rate has been 10% pa compound
- ❑ Foreign Direct Investment in China was >US\$50 b in 2003, primarily focused on manufacturing and has been growing at 6.7% this is a huge increase from 1990 when it was <US\$4b
- ❑ We have just leased a glasswool plant in Nanning to further increase our capacity in Southern China
- ❑ We are investigating other opportunities to participate in the high growth Chinese market

China's Real GDP Growth Rate (%)



China has five major growth corridors



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## Paroc Panels

- ❑ Paroc is a successful European panel business supplying the façade and fire protection industry segments
- ❑ Paroc is a new product area for CSR and is still in the learning phase of the growth curve
- ❑ Paroc has increased our exposure to the high growth commercial market sector in Australia
- ❑ CSR's distribution agreement may lead to a manufacturing plant



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## CSR's Insulation operations in Australia & New Zealand

- ❑ Business turnaround progressing - first quarter 05 EBIT up 400% from a low base
- ❑ Further improvements anticipated
- ❑ 390 employees
- ❑ Expansion of the Ingleburn plant in YEM 06



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# Products and applications

Products	Key Applications	Channels
<input type="checkbox"/> Batts	<input type="checkbox"/> Provide thermal and acoustic insulation in walls and roof	<input type="checkbox"/> Hardware stores <input type="checkbox"/> Insulation distributors <input type="checkbox"/> Direct to large builders
<input type="checkbox"/> Partition batts	<input type="checkbox"/> Used to enhance acoustics of interior walls of commercial buildings	<input type="checkbox"/> Insulation distributors <input type="checkbox"/> Plasterboard contractors
<input type="checkbox"/> OEM products	<input type="checkbox"/> Retain heat in appliances <input type="checkbox"/> Prevent spread of fire in ships	<input type="checkbox"/> Direct to manufacturers
<input type="checkbox"/> Foil	<input type="checkbox"/> Provide thermal insulation and weather protection	<input type="checkbox"/> Hardware stores <input type="checkbox"/> Insulation distributors
<input type="checkbox"/> Commercial blankets	<input type="checkbox"/> Condensation control and thermal insulation under metal roofs	<input type="checkbox"/> Steel roof suppliers <input type="checkbox"/> Direct to roofing contractors
<input type="checkbox"/> Industrial boards, blankets and pipes	<input type="checkbox"/> Used to retain heat within pipes and high temperature and pressure vessels	<input type="checkbox"/> Direct to industrial contractors
<input type="checkbox"/> HVAC boards and pipe	<input type="checkbox"/> Used to limit heat loss in heating and air conditioning ducts of buildings	<input type="checkbox"/> Direct to HVAC contractors

**COMFORT SEAL™**  
**SOUND SCREEN™**  
**FIRE SEAL™**  
**ENVIRO SEAL™**



OEM (Original Equipment Manufacturer) HVAC (Heating ventilation and air conditioning)



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# Australia/New Zealand industry outlook positive

- Regulatory environment**
  - **Mandatory insulation, through the latest revision in the Building code of Australia (BCA)**
  - **Acoustic standards increased in most recent BCA change**
  - **State government focus on energy efficiency ie BASIX in NSW which focuses on reducing energy and water use**
- Industry body (ICANZ) growth strategy**
  - **Insulation benefits**
  - **Independent product testing**
- Community awareness**
  - **Energy and the environment**
- Industry is operating at close to capacity**



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## Key priorities

- ❑ Improve safety performance
- ❑ Implement channel and end user segment growth plans
- ❑ Capacity expansions in China and Australia
- ❑ Investigation of adjacent segment opportunities
- ❑ Price improvements in Australia/New Zealand
- ❑ Paroc panels program
- ❑ Plant efficiency projects in Australia/New Zealand



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## Unitisation

- ❑ Built to provide large compressed packs to allow easy mechanical handling
- ❑ Reduces manual handling of material
- ❑ Provides better utilisation of transport, warehouse and people



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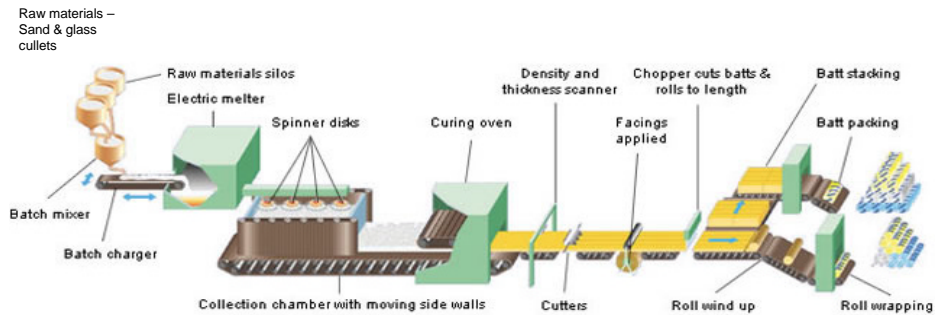
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# Ingleburn tour

- ❑ Process
- ❑ Tour Arrangements
- ❑ Safety

# Glasswool manufacturing

Glasswool is made by fiberising primarily recycled glass which is cured into board, blankets and batts





# Lightweight Building Systems



**Gyprock**  
Everything else is just plasterboard



**Fibre Cement**



**Hebel**  
for future living

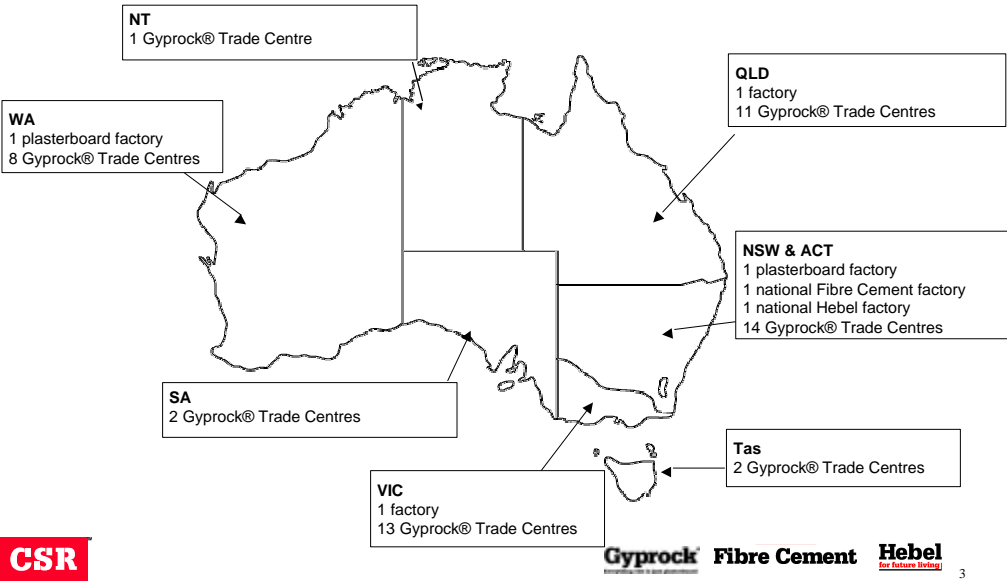
Graeme Doyle

Executive General Manager

## Key facts

- ❑ Plasterboard, Fibre Cement and Hebel – YEM04 revenue \$408 million
  - 4 Plasterboard factories
  - 1 Fibre Cement factory
  - 1 Hebel (AAC) factory
- ❑ 51 company owned Gyprock® Trade Centres
- ❑ 980 employees

# We have 6 factories and 51 Gyprock® Trade Centres located near major population centres



# CSR plasterboard - vertically integrated, with a wide product portfolio, distributed primarily through Gyprock® Trade Centres

Manufactured Products/ Services	Investments	Industry Attractiveness
<ul style="list-style-type: none"> <li>Plasterboard</li> <li>Cornice</li> <li>Jointing cement</li> <li>Plasters</li> <li>Stud adhesives</li> <li>Industrial plaster</li> <li>Bought-in complementary lines</li> <li>Supply &amp; Fix service</li> </ul>	<ul style="list-style-type: none"> <li><b>Rondo</b> – A 50:50 JV with Boral that manufactures metal building accessories for plasterboard installation.</li> <li><b>Gypsum Resources Australia (GRA)</b> – A 50:50 JV with Boral is one of two Australian gypsum suppliers for the plasterboard industry</li> </ul>	<ul style="list-style-type: none"> <li>Low threats from substitutes</li> <li>BGC's entry has impacted the industry though our direct share loss has been small.</li> <li>Imports are marginal.</li> <li>Volumes dependent on building cycle. Good long term growth</li> <li>Plasterboard value added share growing. Margins stable.</li> <li>Customer base fragmented</li> </ul>

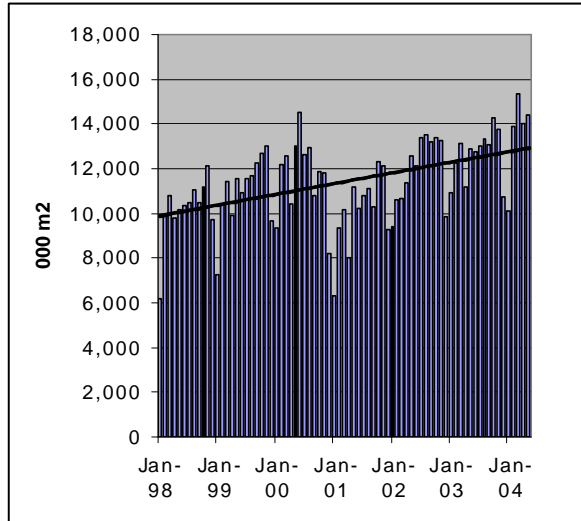
## Primarily direct channels



# The plasterboard market has been growing strongly

- ❑ The market will dip next year, though has been growing steadily.
- ❑ Commercial and Alterations & Additions markets expected to continue to grow

Australian Plasterboard Production



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**Gyprock® Fibre Cement Hebel**  
for future building

## CSR Fibre Cement - strong manufacturing & distribution synergies with Gyprock®

### Manufactured Products/ Services

- ❑ Internal Wallboard
- ❑ Exterior Cladding sheet & texture base systems
- ❑ Compressed Decking & flooring sheet
- ❑ Compressed Sheet for external façade applications
- ❑ Cladding Plank
- ❑ Eaves lining
- ❑ Ceramic Tile Underlay
- ❑ Accessories

### Synergies with Gyprock®

- ❑ Shared Wetherill Park site
- ❑ Shared warehousing
- ❑ Shared deliveries service
- ❑ Shared sales team & admin
- ❑ Gyprock® Trade Centres (particularly Wallboard product)
- ❑ Common customers & channels

### Industry Attractiveness

- Global trend to Fibre Cement
- High A\$ is supporting increased imported product
- High capital costs, technical requirements & market capacity are strong barriers to entry

Primarily sold through distributors with some Gyprock® relationship



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**Gyprock® Fibre Cement Hebel**  
for future building

# CSR's Hebel Business is Australia's only AAC manufacturer

## Manufactured Products/ Services

**AAC: Lightweight Autoclaved Aerated Concrete**

- ❑ Blocks
- ❑ PowerPanel
- ❑ Wall panels
- ❑ Floor panels
- ❑ Accessories

## Markets

- ❑ High rise residential walls
- ❑ Commercial
- ❑ Low rise residential
- ❑ Detached residential
- ❑ Alterations & additions
- ❑ Highway sound barriers

## Industry Attractiveness

- Strong trend to lightweight multi-res. construction plus improved thermal & acoustic efficiency favours AAC systems
- AAC has a small share
- High capital costs and technical requirements are strong barriers to entry
- There are few very large multi residential builder customers and many smaller builders
- Trends to rendered facades & alternative architectural treatments favour AAC in detached residential market

## Factory

Hardware Stores and Timber Yards

Specialist Distributors

Direct to large contractors

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**Gyprock** Fibre Cement **Hebel**  
for Access Building

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## Strategies to grow shareholder value

- ❑ Rigorous attention to customer service 'basics'
- ❑ Focus on the attractive segments of the market
- ❑ Create value by developing powerful new offerings
- ❑ Reduce overhead costs
- ❑ Reduce variable costs and position ourselves to grow share by investing in process capability and freeing up capacity

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for Access Building

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## Dramatically improved customer service supporting margins and customer retention

After a period of internal focus while implementing new business processes, we have returned to a strong external focus

- ❑ Increased product availability 20% - increasing stock and improving mix
- ❑ Improved forecasting accuracy to +/- 5%
- ❑ Improved inventory tracking (98% accurate)
- ❑ Improved transport availability
- ❑ Delivery in full on time (DIFOT) is now improving strongly

## We have developed powerful value propositions for the most attractive market segments

- ❑ We know the major 'opportunity segments'
  - Detailed market sizing
  - Effective segmentation variables
  - Clustering 'like' segments
  - Prioritising those with best opportunity
- ❑ We understand these segments intimately
  - Buying processes
  - Customer profiles
  - Barriers and drivers of behaviour
- ❑ Motivating, defensible value propositions identified for each target segment
  - New product, system and service initiatives identified to support these

# New differentiated Gyprock® offers

Range of boards resistant to sound, fire, impact, sag & moisture marketed strongly to home buyers and builders

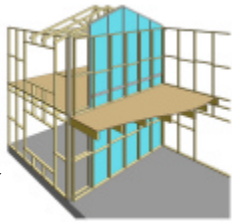


New 'Jazz' cornice extends decorative range to 5



New topping developed for automatic jointing equipment selling strongly to contractors

Gyprock® party wall system developed for dividing walls in multi res construction



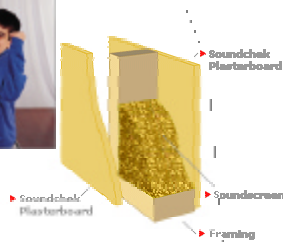
Many new acoustic, fire and structural systems added to our design 'bible'



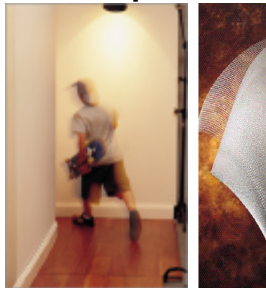
Gyprock® Fibre Cement Hebel  
for Active Living

# Gyprock® High Performance Walls & Ceilings are strongly appealing to home buyers – leveraging across CSR's systems

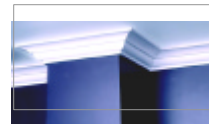
Gyprock® Soundchek™



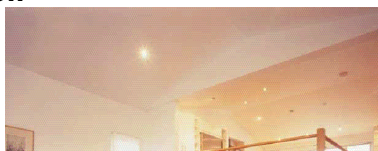
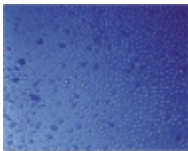
Gyprock® Impactchek™



Decorative cornices



Gyprock® Aquachek™ Flamechek™ & Supaceil™



Gyprock® Fibre Cement Hebel  
for Active Living



# New differentiated CSR Fibre Cement offers

ExpressWall™ – a unique façade system designed to express the joints



Rendaline™ - lightweight rendered façade system with the look of masonry & reduced risk of cracking

Improved Wallboard, triple sealed for a smoother surface for painting and reduced risk of joint cracking



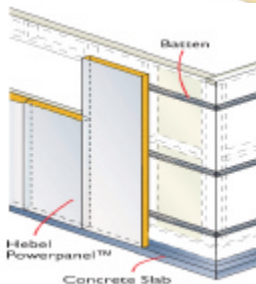
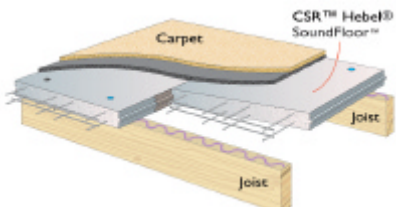
**CSR**

**Gyprock Fibre Cement Hebel**  
for Active Living

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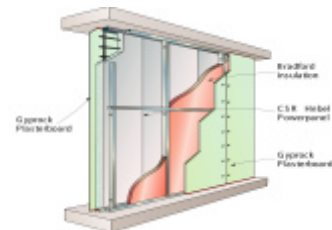
# New differentiated Hebel offers

Soundfloor suspended flooring system – the benefits of a slab

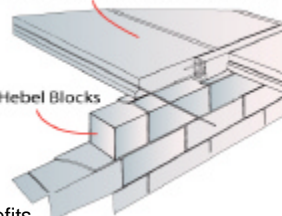


**Residential Wall system.** To reduce costs and simplify construction

**Acoustic Wall System** for multi-residential apartment walling



CSR Hebel Floor and or Roof Panels



**Residential Block system.** Premium preforming house, maximising environmental benefits

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**Gyprock Fibre Cement Hebel**  
for Active Living

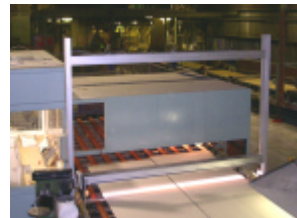
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## Cost improvement

- ❑ **Reduction in warehousing costs**
  - Major study of distribution architecture & logistics underway
- ❑ **Reduction of freight costs**
  - Reduction of multiple deliveries
  - Better truck utilisation
  - Better freight cost recovery
- ❑ **Reduction in admin. overheads**
  - Independent review of structures and overheads
- ❑ **Procurement review**
  - Rigorous review of all purchases to improve efficiency & terms
- ❑ **Operational improvements will offset inflation**

## Operational Efficiency and Capacity

- ❑ **Immediate capability to expand capacity in all geographic markets**
- ❑ **Projects underway investing in process technology for both Gyprock and Fibre Cement**
  - Reduced variable costs
  - Increased operational efficiency and capacity
  - Positioned to grow share in selected segments and markets
- ❑ **Hebel capacity planning in place to meet growing market requirements**



# Summary

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- ❑ Three strong businesses – in good markets, well positioned competitively
- ❑ Rigorous attention to the ‘basics’ is creating a customer service advantage aimed at improving margins and customer retention
- ❑ Focusing on the most attractive segments of the market
- ❑ Creating value by developing powerful new offerings that appeal to customers in those target segments – and exploit cross group systems
- ❑ Programme to reduce overhead costs and variable costs
- ❑ Investing new plasterboard production capability and marketing to grow share and maintain margins

# CSR Roofing



**Neill Evans**  
**Executive General Manager**

**CSR** Roofing



## Key facts

**CSR Roofing - \$173 million YEM04 revenue**

- 80% Concrete roof tiles – Monier**
- 20% Terracotta roof tiles – Wunderlich**
- 60% Supplied & installed**
- 40% Supply only**

**390 employees and approximately 800 sub-contract installers**

**95% of demand is in residential construction**

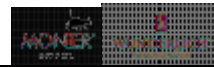
**CSR** Roofing



# Market share rankings

Clear market leader in Australia and New Zealand

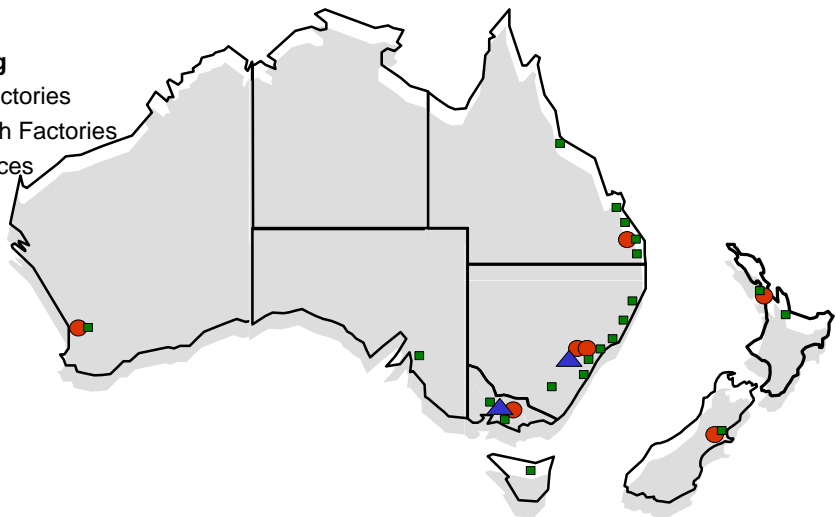
	NSW	VIC	Qld	WA	SA	Australia	NZ
CSR	1	1	2	3	2	1	1
Boral	2	2	3	-	1	2	-
Brickworks (Bristile)	3	3	1	2	-	3	-
BGC	-	-	-	1	3	-	-
Other	-	-	-	-	-	-	2



# 9 factories and 20 sales offices

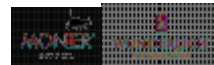
**CSR Roofing**

- Monier Factories
- ▲ Wunderlich Factories
- Sales Offices



## Strong brands

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## Strong brands – 117 years in Australia

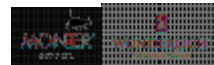
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## CSR Roofing business strategy

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- Deliver cost improvement at all factories
- Build market share against metal roofing
- Continue pricing and margin improvement



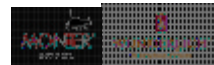
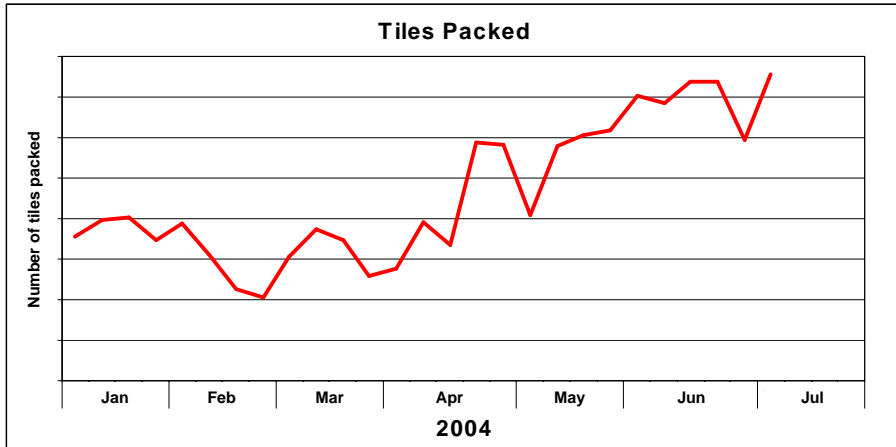
## Deliver cost improvement at Rosehill tile plant

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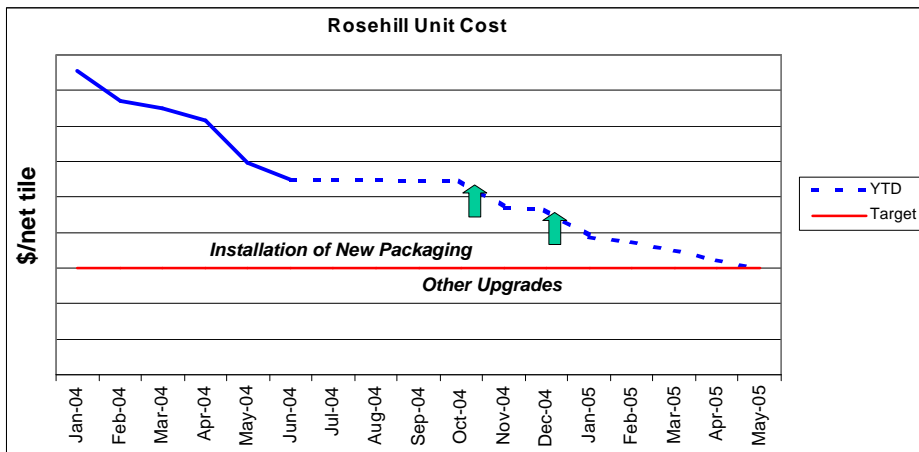
- Plant commissioned March 2003
- Design limitations have hindered performance
- Significant improvement since January 2004
- New packaging installed November 2004
- All upgrades complete by May 2005
- Currently meeting demand through Villawood and Rosehill production



# Rosehill production volumes improving



# Improvement in unit costs

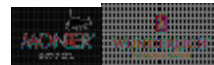




# Build market share

Three key steps:

1. Launch new products
2. Improve selection process
3. Reinvest in our brands



# Build market share - new products



## Build market share - new products



**CSR** Roofing



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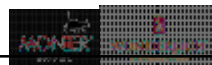
## Build market share – marketing campaign

  
Living in style.



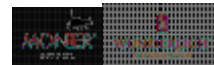
**WUNDERLICH™**  
*The lasting beauty of terracotta*

**CSR** Roofing



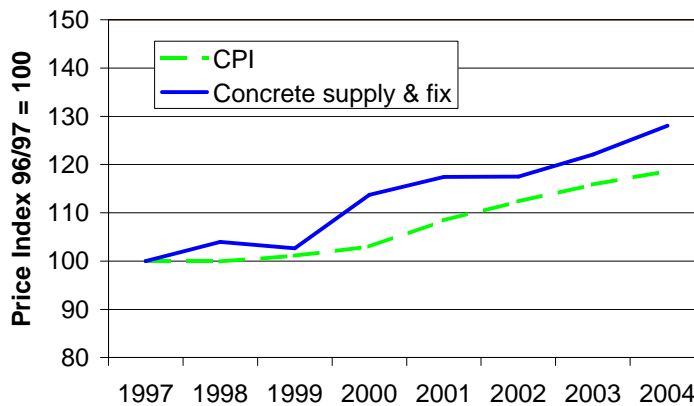
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## Build market share – improving selection process



## Continue pricing improvement

### Concrete Roof Tiles Nominal Pricing



# Summary

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- ❑ **Progress has been made at Rosehill on volumes and costs**
- ❑ **Prices have improved and expected to continue**
- ❑ **Market share progress**
  - ❑ Early evidence of improvement
  - ❑ Covenant changed to include tiles
- ❑ **Business turnaround progressing - first quarter trading EBIT up 25% from a low base**

# PGH Bricks and Pavers



**Chris Grubb**  
Executive General Manager

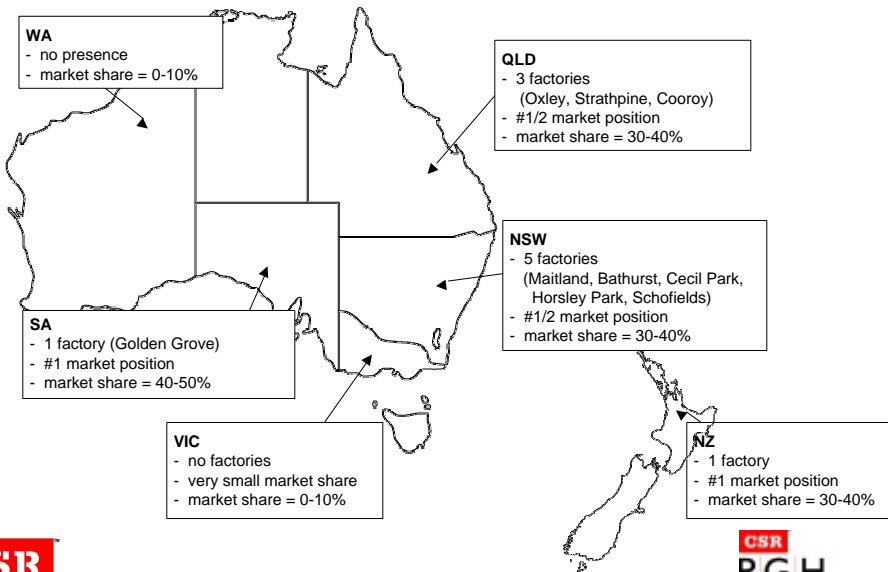


## PGH Bricks and Pavers

- ❑ #1 or 2 market position in core markets (NSW / Qld / SA / NZ)
- ❑ Approx 20% of CSR Building Products total revenue – YEM04 = \$168m
- ❑ 10 factories in Australia / New Zealand
- ❑ 581 employees and 72 contractors



## Where do we operate?



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## Positive market trends

	Outlook	Comments/Actions
Average bricks per single dwelling	↑	Single dwellings getting bigger
Brick share of total cladding market in New Zealand	↑	Up by 10% in last few years, expanding capacity in NZ by 50%
Brick pricing	↑	Up in all states over last 2 years, but needs to continue to provide economic return on capital
Bricklayer population	↑	Industry association now proactively driving bricklayer training schemes in all states

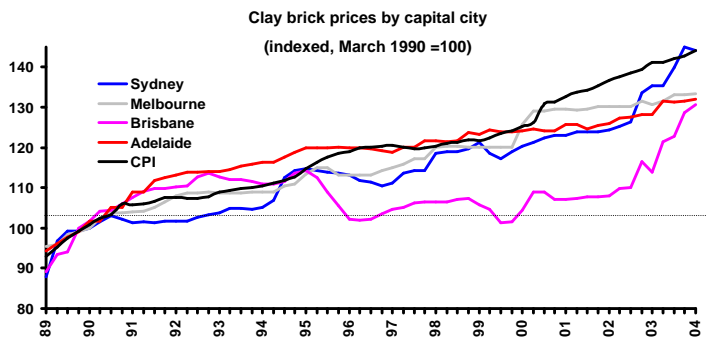
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## Downward market trends

	Outlook	Comments/Actions
Residential activity in relevant geographies	↓	Will come off in all geographies over the next 6-12 months, but outlook in NSW / SA in the longer term looks unattractive
% single dwelling vs multi residential	↓	Most notably in NSW – up from 30% to close to 40% in last 10 years
% large format paver vs small format	↓	Forecast to continue, driven by lifestyle shows, pavers only represent <10% of total volume
% face brick vs commons	↓	Increase in rendered finishes impacts margin. PGH and the brick industry to focus on addressing the trend

## Market trends - pricing

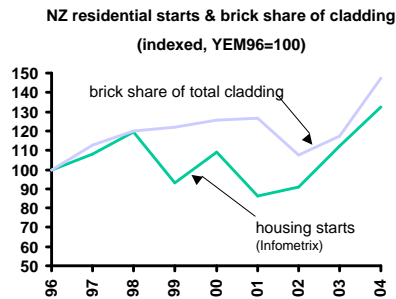
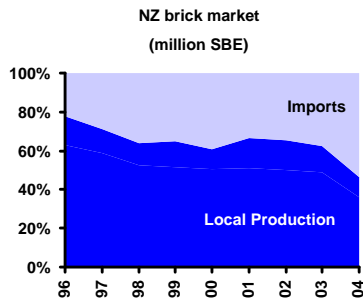
- ❑ Prices have typically lagged CPI over time
- ❑ Pricing has increased strongly in QLD and NSW over the last 2 years
- ❑ The increases in QLD are from a particularly low base
- ❑ Further increases (particularly in Adelaide, Brisbane and Melbourne) are required to justify the cost of capital



Source: "Price Index of Materials Used in House Building by State Capital by Material (a)", ABS

## Market trends – New Zealand

- ❑ NZ dwelling consents have been at record highs for the past 2-3 years
- ❑ There has also been a strong increase in bricks share of the external cladding market (driven mostly by the “leaky building scandal”)
- ❑ Our capacity has been constrained - imports have increased their share significantly
- ❑ 15m unit expansion of CSR’s NZ factory will be completed by end of YEM05



Source: CSR analysis; NZ Brick & Paver import statistics; Infometrix; BIS Shrapnel

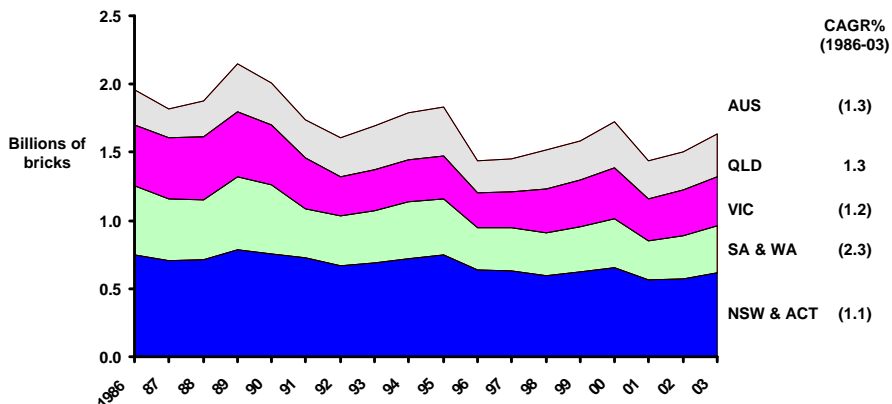
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## Market trends – Australian brick production over time

Clay brick production by state  
(1986-2003)



**CSR**

**CSR**  
**PGH**

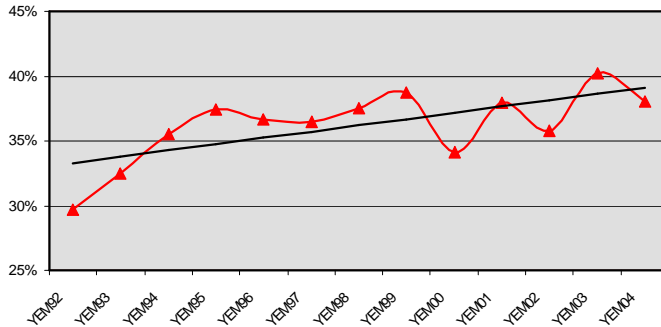
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## Market trends – shift to multi residential

- The average number of bricks per multi-res commencement is less than for a single dwelling commencement

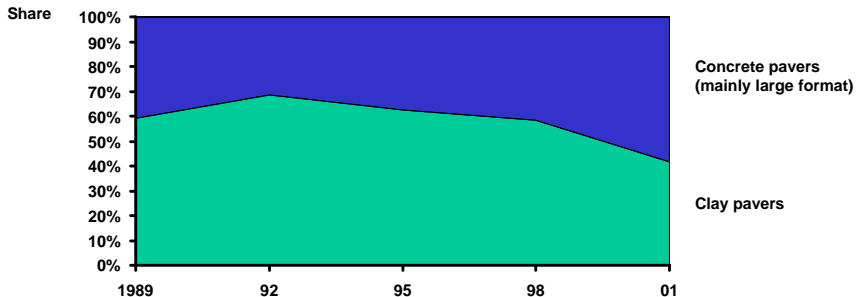
Multi residential commencements as a % of total commencements (NSW, ACT, QLD, SA)



## Market trends – shift to large format pavers

- The overall paving market has grown significantly in the past 10 years
- In general landscaping applications large format (mainly concrete) are increasingly popular
- However in driveway applications where large formats are not so practical, small format (clay) are increasing share

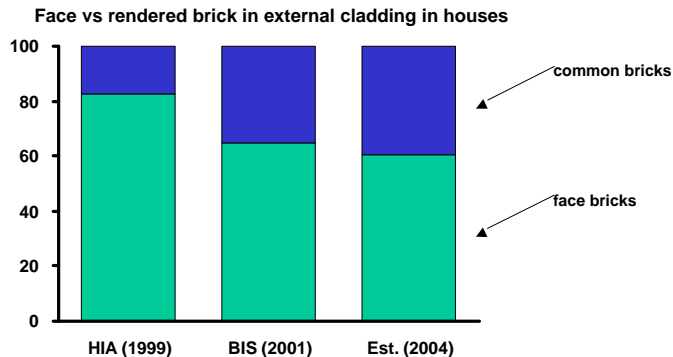
Paving materials by product (1989–2001)



Source: BIS "Building Materials & Fittings" (2004)

## Market trends – shift from face to render

- ❑ The gross margin per brick used for a rendered surface is less than the gross margin for a face brick
- ❑ In some states (especially Qld) entire estates have covenants specifically excluding use of face bricks



Source: BIS Shrapnel, HIA, PGH estimates

CSR

CSR  
PGH

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## Key priorities – YEM05/06 operations improvements

- ❑ Improved safety performance – get the basics right across the business
- ❑ Close the performance gap with Austral (Brickworks)
  - Improve operational effectiveness
    - ✓ Automate Cooroy / Maitland by installing auto dehackers
    - ✓ Reduce Cecil Park downtime
    - ✓ Improve logistics efficiency
  - Expand capacity in Qld and NZ
    - ✓ Expand Oxley (Qld) factory
    - ✓ Expand NZ factory
- ❑ SAP implementation last year went smoothly – now have to drive the benefits

CSR

CSR  
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## Capacity expansion – Qld and NZ

- ❑ The Queensland market is forecast to increase 25% over the next 5 years compared to the past 5 years
- ❑ The industry in Queensland was short capacity through the last building cycle
  - ❑ Capacity expansion: Oxley, Queensland plant – 35m units
    - Design phase capital approved
    - Provides needed capacity for next peak in Queensland
- ❑ Brick usage is increasing in NZ due to the leaky building scandal
- ❑ We have been very short capacity for the past 2 years and have lost share to importers as a result
  - ❑ Capacity expansion: New Lynn, New Zealand plant – 15m units
    - Capital approved
    - Completion expected by end of YEM05

## Key priorities – YEM05/06 sales & marketing

- ❑ Render defence
  - Recruiting specifier representatives to target developers, architects etc.
  - Product development is important
  - Industry approach recently agreed
- ❑ Product development
  - New acoustic range to be launched in September
  - 13 other new products in the pipeline
- ❑ Continue to grow our position in Victoria
  - As the NSW & SA markets soften more product will be available for Victoria
- ❑ Display centre rationalisation in NSW
  - Requiring less land (capital)
  - Reduced operating expense (50% reduction)
- ❑ New Zealand
  - Category growth
  - Urgently regain share from importers
- ❑ Price improvements need to continue in all states