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CSR Limited – review of results for the half year ended 30 September 2018

Trading revenue of $1.4 billion, up 6% from the prior half year following revenue growth in all businesses.

EBITDA[1] of $182.0 million included $157.3 million from Building Products and Viridian which was up 1%. Group EBITDA was impacted by the expected decline in earnings from Aluminium and the timing of Property profits which this year will be weighted to the second half of the year.

EBIT[1] of $142.1 million included the following results:

- **Building Products** EBIT of $116.5 million, down 3% which included $7 million invested in growth initiatives across the portfolio.
- **Viridian** EBIT of $7.1 million was up from $2.2 million in the prior half year. This increase was driven by operational improvements and volume growth in high performance glass in residential and commercial markets.
- **Aluminium** EBIT of $23.0 million was lower as the significant step-up in energy costs was partly offset by the higher realised aluminium price.
- **Property** EBIT of $4.3 million included settlement of Stage 5 of Chirnside Park, VIC. This compares to $46.5 million in the prior half year which included the sale of the 8-hectare site at Rosehill, NSW.

Net profit after tax (before significant items)[1] of $94.0 million, down from $136.6 million.

Statutory net profit after tax of $26.8 million which included $67.2 million of significant items after tax including a non-cash impairment of the Viridian glass operations.

Earnings per share[1] of 18.7 cents, down from 27.1 cents.

Interim dividend (franked at 100%) of 13.0 cents per share.

A$m (unless stated)	**HY19**	**HY18**	**Change**
Trading revenue	**1,399.2**	1,324.2	6%
EBIT			
Building Products and Viridian	123.6	122.5	1%
Aluminium	23.0	50.1	(54%)
Property	4.3	46.5	(91%)
Corporate	(8.8)	(10.3)	
Group EBIT [1]	**142.1**	208.8	(32%)
Net finance costs [1]	(2.6)	(2.2)	
Tax expense [1]	(40.1)	(59.0)	
Non-controlling interests [1]	(5.4)	(11.0)	
Net profit after tax [1]	**94.0**	136.6	(31%)
Significant items after tax	(67.2)	(17.9)	
Statutory net profit after tax	**26.8**	118.7	(77%)

[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 2018 (HY19). All comparisons are to the half year ended 30 September 2017 (HY18) unless otherwise stated.*

CSR FINANCIAL OVERVIEW

CSR Limited has reported a net profit after tax (before significant items) of $94.0 million for the half year ended 30 September 2018, down 31% due to the expected decline in earnings from Aluminium following higher energy costs and the timing of Property profits which this year will be weighted to the second half of the year.

Statutory net profit after tax was $26.8 million, including $67.2 million in significant items after tax primarily related to a non-cash impairment of the carrying value of the Viridian business. This compares to statutory net profit of $118.7 million for the half year ended 30 September 2017.

Tax expense of $40.1 million (before significant items) was down from $59.0 million due to the lower pre-tax profits. CSR's effective tax rate for the year was 28.7% compared to 28.6% in the prior half year.

Net debt of $68.5 million increased from $14.3 million as of 31 March 2018 following investment in Property projects and the construction of the new $75 million Hebel plant in Somersby, NSW due for completion in April 2019. Cash proceeds of $110 million from the previously announced Rosehill and Horsley Park property sales are expected in the year ending 31 March 2020.

Capital expenditure (excluding property and acquisitions) was $57.8 million during the half year. Of this total, $24.0 million was for stay-in-business projects and $33.8 million was development related capital expenditure including investment in the AFS Rediwall manufacturing facility in Minto, NSW and Hebel's new factory in Somersby, NSW.

Dividends

The Company has resolved to pay an interim dividend of 13.0 cents per share, franked at 100%. This represents a dividend payout ratio for the half year of 70% of net profit after tax (before significant items). It is expected that the full year dividend will be in line with CSR's stated dividend policy to pay out 60-80% of full year net profit after tax (before significant items).

The Company's dividend reinvestment plan (DRP) will operate for the interim dividend payable on 11 December 2018. 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 2018, the asbestos provision fell to $278.1 million from $289.0 million as at 31 March 2018. This provision included a prudential margin of $50.0 million or 22% above the combined estimate of the independent experts in Australia and the United States. CSR paid asbestos related claims of $15.0 million (including legal costs) compared to $16.3 million in the prior half year.

CONSTRUCTION MARKET CONDITIONS BY SEGMENT

	HY19	HY18	change
Australia (6 month – 000s)			
Detached[1]	59.1	54.1	9%
Medium density[1]	21.2	21.0	1%
High density[1]	33.9	33.0	3%
Total Residential Commencements	**114.2**	**108.1**	6%
Non-residential (A$B) [2]	22.4	20.2	11%
A&A (A$B) [2]	4.4	4.3	2%
NZ consents (6 month - 000s) [3]	15.2	14.7	3%

MARKET CONDITIONS BY STATE[1] (COMMENCEMENTS - TWO QUARTER LAG)

	NSW/ACT	Vic/Tas	QLD	SA/NT	WA	AUSTRALIA
Detached	11%	15%	9%	1%	-4%	9%
Multi-residential	-15%	23%	-3%	78%	4%	2%
Total housing	-5%	18%	4%	21%	-2%	6%

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

During the period, commencements in detached and medium density housing remained positive, while there was a decline in activity in the high density market, particularly in NSW.

The non-residential market has strengthened with approvals reaching over $45 billion, driving work done activity in the commercial and social sectors. The alterations and additions market also improved, while the New Zealand market remained reasonably strong across all segments.

Building Products financial results

A$m unless stated [1]	HY19	HY18	change
Revenue	**887.2**	862.5	3%
EBITDA	142.7	145.8	(2%)
EBIT	**116.5**	120.3	(3%)
Funds employed[2]	979.0	922.8	6%
EBIT/revenue	13.1%	13.9%	
Return on funds employed[3]	22.1%	22.7%	

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 $887.2 million, up 3%, with higher pricing and steady volumes across most products and segments.

EBIT was down 3% to $116.5 million with increased costs ahead of pricing in some market segments. The result also includes approximately $7 million which was invested in several growth initiatives including CSR's digital customer platform and the Inclose façade system.

EBIT margin of 13.1% was down from 13.9% due to increased costs and changes in product mix including increased volumes of imported products partly offset by operational improvements.

SUMMARY OF BUILDING PRODUCTS BUSINESS UNIT PERFORMANCE

GYPROCK Everything else is just plasterboard	**Gyprock** earnings were marginally down following lower volumes due to the completion of high-rise apartment projects and weak markets in WA, partly offset by improved pricing. Gyprock continues to invest in its market-leading brand position including digital services and store upgrades across its 60 Gyprock Trade Centres.
CEMINTEL	**Cemintel** fibre cement earnings were higher following growth in fibre cement façade systems and prefinished panels. Improved operational performance including cost reduction and efficiency initiatives also contributed to the result.
hebel The better way to build	**Hebel** earnings were slightly down due to softer conditions in the NSW high-rise apartment market and the timing of civil projects. The $75 million expansion of capacity at Somersby, NSW is on track for completion in April 2019 utilising world class AAC technology which will deliver improved capability and operational efficiency.
PGH BRICKS & PAVERS	**PGH Bricks** earnings were in line with the previous half year as cost increases including energy were recovered in pricing. As part of PGH's strategy to consolidate its operating footprint in NSW, one kiln at Cecil Park will be mothballed by December 2018. PGH continues to invest in brick cladding solutions targeting the commercial market following the launch of Corium and InBrick façade systems.
Bradford	**Bradford** earnings increased due to growth in Energy Solutions and polyester markets. While core glasswool insulation volumes were higher, this was offset by higher energy and raw material costs. Energy Solutions continues to expand its alliances with major builders while growth continues for thermal and acoustic polyester insulation products in the commercial market.
afs smarter permanent formwork.	**AFS** walling systems increased earnings with growth in Rediwall volumes following the launch of the new product range and expansion of the manufacturing facility at Minto, NSW.
MONIER	**Monier** roofing earnings were down due to higher installation costs and increased margin pressure in both Australia and New Zealand. Monier's InlineSOLAR was launched in August 2018 providing a solar solution which is integrated in the roofline. The lightweight roofing system, Elemental, continues to grow.

Viridian

Increase in EBIT following operational improvements

A$m unless stated [1]	HY19	HY18	change
Revenue	**200.5**	192.1	4%
EBITDA	14.6	9.7	51%
EBIT	**7.1**	2.2	223%
Funds employed[2]	172.3	236.2	(27%)
EBIT/revenue	3.5%	1.1%	
Return on funds employed[3]	4.1%	1.3%	

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 of $200.5 million was up 4% following volume growth in demand for double glazing and improving sales in commercial markets.

Viridian's EBIT of $7.1 million was up from $2.2 million following increased volumes and pricing for higher performance glass. Performance in the Commercial business improved following operational changes at the Ingleburn, NSW factory. This was offset by a decline in earnings from Viridian's local businesses which service regional markets. Some of these regions are experiencing weaker demand with increased competition impacting Viridian's pricing and volumes in the local operations.

The New Zealand business increased earnings by $2.5 million following stronger operational performance at the Highbrook factory in Auckland.

In July 2018, CSR confirmed that it was reviewing strategic alternatives in relation to the Viridian glass business. This review is materially progressed and the company expects to make a final decision by the end of this calendar year.

While Viridian's earnings have improved in the first half of the financial year, the performance remains below internal targets. An assessment of the carrying value of Viridian has been performed in conjunction with the strategic review. As a result, CSR has recognised a non-cash impairment, associated lease provisions and other costs of $75.9 million as a pre tax significant item.

Further details regarding the carrying value assessment including a sensitivity analysis is included in Note 8 of the half year report.

ALUMINIUM

EBIT lower due to higher energy costs

A$m unless stated [1]	**HY19**	**HY18**	**change**
Sales (tonnes)	104,959	103,391	2%
A$ realised price[2]	2,967	2,607	14%
Revenue	**311.5**	269.6	16%
EBITDA	28.8	60.8	(53%)
EBIT	**23.0**	50.1	(54%)
Funds employed[3]	142.8	128.2	11%
EBIT/revenue	7.4%	18.6%	
Return on funds employed[4]	38.6%	69.6%	

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 up 14% to A$2,967 per tonne.

Gove Aluminium Finance (GAF – 70% CSR) sales volumes of 104,959 tonnes were up 2% due to the timing of sales compared to the prior half year. Trading revenue of $311.5 million was up 16%, reflecting the 14% improvement in the realised aluminium price.

US$ aluminium prices increased during the half year with the average cash price per tonne of US$2,157 up 10% from US$1,961 in the prior half year following aluminium trade sanctions and higher alumina prices.

The Australian dollar averaged 74.4 US cents during the half year compared to 77.0 US cents in the prior half year, while the average ingot premium for the half year was US$131 per tonne, up 6% (Platts Metals Week – Main Japanese Port ingot premium).

EBIT of $23.0 million was down 54% largely due to the new power supply contract which took effect from November 2017. This increased total power-related costs by $41.9 million compared to the prior half year.

Production costs also increased due to higher raw material costs, up $13.5 million, including coke and pitch. This was partially offset by operational improvements at Tomago.

Alumina costs were also higher during the half year due to the higher US$ aluminium price. GAF has secured alumina supply linked to the US$ aluminium price until December 2019. A tender process has commenced regarding new contract terms to begin in January 2020.

PROPERTY

Property sale at Horsley Park to be recorded in the second half of the year

A$m unless stated [1]	HY19	HY18	change
EBIT	**4.3**	46.5	(91%)
Funds employed[2]	181.4	176.6	3%
Return on funds employed[3]	3.1%	30.6%	

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 $4.3 million which included completion of Stage 5 at Chirnside Park, VIC. This compares to $46.5 million in the prior half year which included the sale of the 8-hectare site at Rosehill, NSW.

The Chirnside Park development is nearing completion as construction of Stage 6 continues. As of 30 September 2018, this project has delivered $38.4 million in EBIT.

In April 2018, CSR confirmed the sale of the first parcel of surplus land at Horsley Park, NSW. The sale of the 10-hectare site is expected to generate Property EBIT of approximately $31 million to be recorded in the second half of the financial year with cash settlement expected in April 2019. Site rehabilitation continues on the remaining 20-hectares of surplus land at Horsley Park.

Full zoning approval of the 70 hectare site at Schofields, NSW is expected to be completed during 2019 with site rehabilitation substantially completed.

OUTLOOK

Regarding the outlook for the remaining six months of the financial year ending 31 March 2019 (YEM19), CSR confirmed:

Building Products and Viridian – Despite moderation in demand from both multi-res and detached housing approvals, particularly in NSW, fundamentals for housing remain reasonably strong supported by population growth and a stable environment for employment and interest rates.

Demand for CSR's products will also be bolstered by forecast growth in the non-residential markets. CSR has a growing position in this market which represents about one quarter of revenue with a number of major projects in the pipeline.

Aluminium – Currently 75% of net aluminium exposure for 2H YEM19 is hedged at an average price of A$2,648 per tonne (excluding ingot premiums) as of 31 October 2018. Subject to current operating conditions and pricing, earnings are expected to be around $45 million for YEM19.

Property – Earnings of approximately $31 million from the sale of the 10-hectare surplus industrial site at Horsley Park, NSW are expected to be recorded in the second half of the year. Construction of Stage 6 at Chirnside Park, VIC continues. This will increase the expected Property EBIT for the full year to around $35-$40 million, subject to the timing of transactions.

CSR expects that group net profit after tax (before significant items) for YEM19 will be within the current range of analysts' forecasts of $180 million to $205 million (before significant items).

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