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CSR Limited – review of results for the six months ended 30 September 2014

- **Trading revenue**[1] of $1.0 billion up 15% for the six months ended 30 September 2014
- **EBITDA**[1] of $152.9 million up 53% reflecting higher earnings across all businesses
- **EBIT**[1] of $114.1 million up 86%
  - **Building Products** EBIT of $63.1 million up 22% with higher volumes across all products reflecting the demand from increasing construction activity
  - **Viridian** EBIT of $0.5 million, significantly up on the loss of $10.6 million in the same period last year following the benefit of restructuring initiatives and improved pricing
  - **Aluminium** EBIT of $41.4 million up 71% due to higher realised A$ aluminium prices and improved smelter performance
  - **Property** EBIT of $20.4 million up from $6.8 million following settlement of two major transactions
- **Net profit after tax (pre significant items)**[1] of $70.0 million up 72%
- **Statutory net profit** of $68.4 million up 48%
- **Earnings per share**[1] 13.9 cents up from 8.1 cents
- **Interim dividend** of 8.5 cents per share up 70%

A$m (unless stated)	HYES14	HYES13	change
Trading revenue	1,005.4	877.1	15%
EBITDA [1]	152.9	100.0	53%
EBIT [1]	**114.1**	**61.3**	**86%**
Net finance cost [1]	(3.2)	(4.1)	
Tax expense [1]	(32.4)	(11.3)	
Non-controlling interests	(8.5)	(5.3)	
Net profit after tax [1]	**70.0**	**40.6**	**72%**
Significant items	(1.6)	5.5	(129%)
Statutory net profit after tax attributable to shareholders	68.4	46.1	48%
Earnings per share[1] [cents]	**13.9**	**8.1**	**72%**
EPS (after significant items) [cents]	13.6	9.1	49%
Dividends per share [cents]	8.5	5.0	70%

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[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 six months ended 30 September 2014 (HYES14). All comparisons are to the six months ended 30 September 2013 unless otherwise stated.*

FINANCIAL OVERVIEW

CSR Limited ("CSR") reported today a 72% increase in net profit after tax (pre significant items) to $70.0 million for the six months ended 30 September 2014.

Earnings before interest and tax (EBIT) of $114.1 million was up 86% reflecting higher earnings across all businesses.

Statutory net profit after tax was $68.4 million, which included a significant items charge of $1.6 million after tax. Significant items include a change in the classification of the 'discount unwind' expense to record the product liability provision in present value terms. This compares to statutory net profit of $46.1 million for the six months ended 30 September 2013.

Net finance cost of $3.2 million was down from $4.1 million. These costs exclude the 'discount unwind' expense for the product liability provision which was previously included as a finance expense in CSR's net profit (before significant items).

Tax expense of $32.4 million (before significant items) was up from $11.3 million due to the increase in pre-tax profits. CSR's effective tax rate for the half year was 29.2% an increase from 19.8% in the previous corresponding half year which mainly reflects reduced R&D claims and lower tax free profits on property sales.

Net cash position of $5.7 million improved by $34.2 million since 31 March 2014, despite funding the $36.7 million acquisition of AFS during the period. This improvement reflects increased underlying operating cash flows as a result of higher earnings and working capital management, as well as an increase in net Property cash flows.

Capital expenditure (excluding Property) was $28.8 million during the period, up from $23.4 million last year. Of this total, $15.1 million was for stay-in-business projects and $13.7 million was development related capital expenditure including investment in automated warehousing in Gyprock.

Total capital expenditure (excluding Property) for the full year is expected to be in the order of $70 million compared to $52.0 million in the prior financial year (excluding acquisitions).

CSR continued to invest in its Property business, including the development of the Brendale and Chirnside Park sites. Despite these ongoing investments, positive net cash flow from Property of $29.4 million was recorded for the period.

Dividends

CSR reaffirms its policy to pay out 60-80% of full year net profit after tax (pre significant items) as dividends. Accordingly, the Company has resolved to pay an unfranked interim dividend of 8.5 cents per share on 16 December 2014, representing a payout ratio of 61% of net profit after tax (pre 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 16 December 2014. 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 2014, the product liability provision was $361.2 million, the lowest level in nine years, due to a decrease in future estimated claims in the United States. This provision includes a prudential margin of $68.3 million or 23% above the combined estimate of the independent experts in Australia and the United States. CSR paid asbestos related claims of $13.9 million (including legal costs) down 9% from $15.3 million in the prior corresponding period.

BUILDING PRODUCTS

Market update

	HYES14	HYES13	change
Australia			
Detached (6 month starts - 000s) [1]	50.6	45.2	12%
Other residential (6 month starts - 000s) [1]	41.3	34.1	21%
Total	**91.9**	**79.3**	**16%**
Non-residential (A$B) [2]	18.3	17.8	3%
A&A (A$B) [2]	3.6	3.6	1%
NZ consents (6 month - 000s) [3]	**11.6**	**9.0**	**29%**

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

Residential construction commencements have risen steadily for nearly two years with total dwelling construction up 16% (on a two quarter lag basis), largely in higher density/other residential segments. New South Wales, Queensland and Western Australia have shown the strongest improvement while activity in the Victorian detached market has returned to growth after declining over the last three years.

New Zealand continues to recover with residential consents (two quarter lag) up 29%, led by the Christchurch re-build and growth in the Auckland market.

A$m unless stated [1]	HYES14	HYES13	change
Lightweight Systems	449.4	372.6	21%
Bricks and Roofing	160.3	146.0	10%
Trading revenue	**609.7**	**518.6**	**18%**
EBITDA	82.9	70.5	18%
EBIT	**63.1**	**51.8**	**22%**
Funds employed[2]	831.8	811.7	2%
EBIT/trading revenue	10.3%	10.0%	
Return on funds employed[3]	**12.6%**	**10.7%**	

1 *Pre-significant items*
2 *Excludes cash and tax balances as at 30 September*
3 *Based on EBIT (before significant items) for the 12 months to 30 September divided by average net assets excluding tax, defined benefit liabilities, hedging and asbestos.*

Trading revenue from Lightweight Systems[1] and Bricks and Roofing[2] was $609.7 million, up 18% with higher volumes across all products and improved pricing in most product categories. Excluding the recent acquisitions of the AFS and Martini businesses, revenues were up 12%. Sales volumes have risen steadily during the last six months with strong improvement in September.

EBIT was up 22% with earnings growth across all businesses, reflecting the benefit of higher sales volumes and recent acquisitions of AFS and Martini.

EBIT was also impacted by planned shutdowns at the Schofields and Horsley Park brick facilities to deliver efficiency improvements, as well as further investment in new brick products. As a result, EBIT margin increased to 10.3% compared to 10.0% in the prior corresponding half year.

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[1] *Lightweight Systems includes Gyprock™ plasterboard, Cemintel™ fibre cement, Ceilector™ ceilings, Potter™ interior systems, Hebel® lightweight concrete products, AFS® walling systems, Bradford™ insulation and the Edmonds™ ventilation systems.*

[2] *Bricks and Roofing includes the PGH™ bricks, Monier™, MonierPrime™ and NZ Brick Distributors.*

Lightweight Systems

Lightweight Systems trading revenue was $449.4 million, up 21%. Excluding the AFS and Martini businesses, Lightweight Systems revenue was up 12%.

Gyprock increased earnings with higher volumes across all markets and modest improvements in pricing. The business maintained its market-leading brand position through continued product innovation including the August 2014 launch of Optimised Core Technology for Supaceil™ ceiling board. The new and improved Supaceil™ is stronger and easier-to-use while being 15% lighter. This technology will be rolled out to other products over the coming year.

Cemintel earnings were higher with increased volumes in New South Wales offsetting weaker demand in Victoria with pricing impacted by lower demand from commercial markets. Growth continues for new products in external cladding and flooring systems.

Hebel, CSR's autoclaved aerated concrete business, continued to increase earnings with volumes higher as it benefits from growth in apartment buildings, particularly in the New South Wales market and the 'supply & fix' offer for residential housing.

Bradford earnings increased following improved pricing and higher volumes including strong demand for special application products including Soundscreen™ acoustic and Optimo™ underfloor insulation. The result also includes earnings from polyester manufacturer Martini acquired in November 2013 which has extended Bradford's product line into major projects including the Barangaroo development site in Sydney. Bradford Energy Solutions is also extending its reach into commercial markets for energy consulting services.

AFS, a leader in load bearing permanent formwork solutions, was acquired on 2 April 2014. The business is performing in line with expectations and benefiting from growth in demand from the multi-residential market.

Bricks and Roofing

In **PGH Bricks**, earnings increased as the business benefited from volume growth from the three major regions where PGH operates in Queensland, New South Wales and South Australia. EBIT margins improved due to production efficiencies and higher margin product mix. The result also included an increased contribution from the NZ Brick Distributors joint venture following growth in residential activity in New Zealand.

Earnings in **Monier Roofing** were also higher with increased volumes in all states.

On 16 October 2014, the Australian Competition and Consumer Commission (ACCC) released a Statement of Issues regarding the proposed joint venture of CSR and Boral's brick operations located on the east coast of Australia announced on 4 April 2014.

CSR and Boral are continuing to engage with the ACCC to address issues identified. A final decision from the ACCC on the proposed joint venture is expected on 18 December 2014.

VIRIDIAN

A$m unless stated [1]	HYES14	HYES13	change
Trading revenue	142.8	137.1	4%
EBITDA	5.3	(4.7)	NM
EBIT	**0.5**	**(10.6)**	**NM**
Funds employed[2]	183.6	180.0	2%
EBIT/trading revenue	0.4%	NM	
Return on funds employed[3]	**(2.1%)**	**(12.5%)**	

1 *Before significant items*
2 *Excludes cash and tax balances as at 30 September*
3 *Based on EBIT (before significant items) for the 12 months to 30 September divided by average net assets excluding tax, defined benefit liabilities, hedging and asbestos.*

Trading revenue of $142.8 million was up 4% from $137.1 million following the benefit of pricing initiatives and higher volumes driven by market demand.

Viridian recorded a positive **EBIT** of $0.5 million up from the EBIT loss of $10.6 million in the prior corresponding half year. The significant increase in earnings was driven by the benefit of restructuring initiatives launched in March 2013 which included improved utilisation of the float glass manufacturing facility at Dandenong in Victoria, following the closure of the Ingleburn factory in July 2013. New Zealand operations also improved driven by strong construction activity and operational initiatives launched earlier this financial year.

ALUMINIUM

A$m unless stated [1]	HYES14	HYES13	change
Sales (tonnes)	101,038	95,935	5%
A$ realised price[2]	$2,503	$2,308	8%
Trading revenue	**252.9**	**221.4**	**14%**
EBITDA	55.1	37.7	46%
EBIT	**41.4**	**24.2**	**71%**
Funds employed[3]	184.4	216.4	(15%)
EBIT/trading revenue	16.4%	10.9%	
Return on funds employed[4]	**34.5%**	**23.7%**	

1 *Before significant items*
2 *Realised price in A$ (including hedging and premiums)*
3 *Excludes cash and tax balances as at 30 September*
4 *Based on EBIT (before significant items) for the 12 months to 30 September divided by average net assets excluding tax, defined benefit liabilities, hedging and asbestos*

Aluminium prices rose during the last six months and reached 18 month highs in September 2014 due to improved market fundamentals. This included continued strong growth in aluminium demand, LME inventories falling to three year lows and a strengthening US economy. Improved pricing also reflected a weaker Australian dollar which was 3% lower.

Ingot premiums, the premiums paid to producers above the LME aluminium price, remain at record levels as a result of tightness in the physical supply of aluminium and the continued financing and warehousing of aluminium inventories. As a result, the realised aluminium price in Australian dollars (including hedging and premiums) was up 8% to A$2,503 per tonne.

Gove Aluminium Finance (GAF – 70% CSR) sales volume of 101,038 tonnes was 5% higher as productivity initiatives drove increased production at Tomago. Trading revenue of $252.9 million was up 14% reflecting the higher realised price which includes hedging and premiums.

EBIT of $41.4 million was up 71% with the EBIT margin improving to 16.4% from 10.9% due to the higher realised price while production costs at the Tomago smelter remained stable.

PROPERTY

A$m unless stated [1]	HYES14	HYES13	change
EBIT	**20.4**	**6.8**	**200%**

1 Before significant items

CSR's Property division recorded EBIT of $20.4 million up from $6.8 million in the prior corresponding half year. The result includes the sale of the multi-residential development site at Pyrmont and surplus industrial land at Ingleburn in Sydney.

The result also includes earnings from the major residential development at Chirnside Park, Melbourne following completion of the first stage of development in March 2014. Construction continues on stages 2 and 3 of the 533-lot site with a further 174 sales contracts exchanged as of 31 October 2014.

Other projects include the development of the remaining 38.5 hectare industrial site at Brendale in Brisbane and marketing of the remaining two hectares of land at Erskine Park.

Group outlook for year ending 31 March 2015

In **Building Products,** a growth rate similar to the first half is expected for earnings in the second half of the financial year. Longer term, the steady growth in housing activity and continuing positive trends in other leading indicators will lead to increased demand for CSR's products.

Viridian is expected to continue its turnaround in earnings and is tracking slightly ahead of its stated objective to exit the year with an EBIT positive run-rate.

In **Aluminium**, GAF has approximately 90% of its net aluminium exposure for the second half of the year hedged at A$2,143 per tonne. Ingot premiums are expected to stay near record levels for the remainder of the year while the physical tightness in supply continues.

Property EBIT is expected to be higher in the full year, subject to timing of another transaction expected to settle in the second half. CSR retains a diverse property portfolio with a solid pipeline of transactions currently under negotiation.

CSR notes that the current analysts' forecast range for CSR net profit after tax (pre significant items) is $111 million to $134 million for the year ending 31 March 2015. Assuming no material decline in market conditions, CSR expects group net profit after tax (before significant items) will be towards the upper end of this range.

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