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4 November 2015

CSR Limited – review of results for the half year ended 30 September 2015

- **Trading revenue**[1] of $1.1 billion up 14% for the half year ended 30 September 2015
- **EBITDA**[1] of $190.6 million up 25%
- **EBIT**[1] of $149.3 million up 31%
  - **Building Products** EBIT of $89.9 million up 42%, including consolidated EBIT from the Boral CSR Bricks joint venture (now operating under the PGH brand). Higher volumes across all products with increased margins reflecting higher pricing and improved factory performance
  - **Viridian** EBIT of $2.3 million, up from $0.5 million with improved pricing lifting margins
  - **Aluminium** EBIT of $54.7 million up 32% due to higher realised A$ aluminium prices and improved smelter performance
  - **Property** EBIT of $16.2 million which included the second tranche sale of the development site at New Lynn near Auckland
- **Net profit after tax (pre significant items)**[1] of $92.4 million up 32%
- **Statutory net profit** of $77.6 million up 13% which included $14.8 million (after tax) of significant items, including transaction costs related to the formation of the Bricks joint venture
- **Earnings per share**[1] 18.3 cents up 32% from 13.9 cents
- **Interim dividend** of 11.5 cents per share up 35%

A$m (unless stated)	HYES15	HYES14	change
Trading revenue	1,144.5	1,005.4	14%
EBITDA [1]	190.6	152.9	25%
EBIT [1]	**149.3**	**114.1**	**31%**
Net finance cost [1]	(2.5)	(3.2)	
Tax expense [1]	(37.7)	(32.4)	
Non-controlling interests [1]	(16.7)	(8.5)	
Net profit after tax [1]	**92.4**	**70.0**	**32%**
Significant items	(14.8)	(1.6)	
Statutory net profit after tax attributable to shareholders	77.6	68.4	13%
Earnings per share[1] [cents]	**18.3**	**13.9**	**32%**
EPS (after significant items) [cents]	15.4	13.6	13%
Dividends per share [cents]	11.5	8.5	35%

[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 2015 (HYES15). All comparisons are to the half year ended 30 September 2014 unless otherwise stated.*

FINANCIAL OVERVIEW

Favourable market activity and continued operational focus drive earnings higher

CSR Limited ("CSR") reported today a 32% increase in net profit after tax (pre significant items) to $92.4 million for the half year ended 30 September 2015.

Earnings before interest and tax (EBIT pre significant items) of $149.3 million were up 31%. The results included the consolidated earnings of PGH Bricks (60% owned by CSR) which began operations on 1 May 2015. Excluding the minority portion of PGH Bricks EBIT, CSR EBIT was up 24%.

Statutory net profit after tax was $77.6 million, which included a significant items charge of $14.8 million (after tax). Significant items included transaction and integration costs relating to the formation of the Bricks joint venture and the 'discount unwind' expense to record the asbestos-related provision in present value terms. This compares to statutory net profit of $68.4 million for the half year ended 30 September 2014.

Tax expense of $37.7 million (pre significant items) was up from $32.4 million due to the increase in pre tax profits. CSR's effective tax rate for the half year was 25.7%, a decrease from 29.2% in the previous corresponding period. The decrease in the effective tax rate was mainly due to timing of property transactions, with certain property sales concessionally taxed. The expected tax rate for the full year ending 31 March 2016 is expected to be around 27%.

Net cash position of $33.9 million was down from $68.4 million as at 31 March 2015. During the period, the business delivered higher earnings and continued improvements in working capital management. The timing of Property settlements led to net cash Property outflows of $3.9 million during the period. In addition, the timing of a shipment in Aluminium impacted the cash position by $25.0 million.

Capital expenditure (excluding Property) was $32.2 million during the period. Of this total, $16.2 million was for stay-in-business projects and $16.0 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. Capital expenditure represented 78% of depreciation.

CSR continued to invest in its Property business including the development of the Brendale and Chirnside Park sites.

Dividends

The Company has resolved to pay an unfranked interim dividend of 11.5 cents per share on 15 December 2015 representing an increase of 35% on the 2014 interim dividend. This results in an interim dividend payout ratio of 63% of net profit after tax (pre significant items) which is in line with CSR's dividend policy to pay out 60-80% of full year 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 15 December 2015. 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 2015, the asbestos provision of $344.1 million was down from $350.7 million. The US liability decreased by US$7.6 million, offset by a lower Australian dollar. This provision included a prudential margin of $52.0 million or 17.8% above the combined estimate of the independent experts in Australia and the United States. CSR paid asbestos related claims of $12.5 million (including legal costs) down 10% from $13.9 million in the previous corresponding period.

BUILDING PRODUCTS

Continued strength in residential housing

	HYES15	HYES14	change
Australia			
Detached (6 month starts - 000s) [1]	56.0	50.5	11%
Other residential (6 month starts - 000s) [1]	46.6	40.7	14%
Total Residential Commencements	**102.6**	**91.2**	**12%**
Non-residential (A$B) [2]	17.4	17.6	(1%)
A&A (A$B) [2]	3.7	3.5	6%
NZ residential consents (6 month - 000s) [3]	**12.5**	**11.6**	**8%**

1 Source ABS data – (two quarter lag – i.e. actual 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 six months to 31 March 2015 grew by 12%.

Looking ahead, residential building approvals continue to grow in both detached and multi-residential sectors with some states reaching record levels. Detached housing continues its steady growth across key markets in New South Wales, Victoria and Queensland, coupled by robust multi-residential activity, particularly high rise apartments.

The sustained growth in residential activity has created supply-side constraints. Consequently, lead times between commencement and completions have extended, leading to an increased construction pipeline. The combination of strong approvals and growing pipeline underpins continued strong demand for CSR's products in the medium term.

Higher volumes and improved pricing lift Building Product earnings

A$m unless stated [1]	HYES15	HYES14	change
Lightweight Systems	510.2	449.4	14%
Bricks and Roofing	223.7	160.3	40%
Revenue	**733.9**	**609.7**	**20%**
EBITDA	112.5	82.9	36%
EBIT	**89.9**	**63.1**	**42%**
Funds employed[2]	905.4	831.8	9%
EBIT/revenue	12.2%	10.3%	
Return on funds employed[3]	**17.0%**	**12.6%**	

1 Pre-significant items.
2 Excludes cash and tax balances and certain other non-trading assets and liabilities (including asbestos liabilities) as at 30 September. A reconciliation of funds employed is included in Note B1 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 Lightweight Systems[1] and Bricks and Roofing[2] was $733.9 million, up 20% with higher volumes and improved margins across all products which includes 100% of the revenue from PGH Bricks which began operations on 1 May 2015. Excluding the minority portion of PGH Bricks revenue, Building Products revenue was up 12%.

EBIT was up 42% to $89.9 million with earnings growth across all divisions, reflecting the benefit of higher sales volumes and improved factory performance. Excluding the minority portion of PGH Bricks EBIT, Building Products EBIT was up 30%.

EBIT margin increased to 12.2%, up from 10.3% as improved volume, pricing and product mix flowed through to results.

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

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

Lightweight Systems – trading revenue up 14% to $510.2 million

Gyprock increased earnings with higher volumes reflecting the improved housing market while average selling prices increased in most states. Gyprock maintained its market-leading brand position with the extension of the Optimised Core Technology in its 10mm product. Gyprock Plus is stronger, lighter and easier to use and replaces the existing 10mm Gyprock under existing pricing arrangements.

Cemintel fibre cement earnings were in line with the previous half year 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 continued to increase earnings, benefiting from growth in multi-residential markets and increased share of the detached housing market. The 30% increase in capacity of Hebel's Somersby operations will be finalised by the end of November 2015 for a total investment of $2.8 million.

AFS walling systems increased sales volumes following growing demand from the multi-residential market. Commissioning of the new AFS Rediwall® manufacturing facility located at Minto, NSW is targeted for completion by the end of November 2015.

Bradford earnings increased with higher volumes and improved pricing from Bradford Insulation in line with market activity. Growth continues in ventilation products with strong demand from the retrofit housing market for the CSR designed Odyssey system. Earnings from polyester manufacturer CSR Martini grew following demand from major commercial projects in Australia. CSR Martini also expanded operations with the July 2015 acquisition of the manufacturing assets of Tontine Polyester Batts which includes decorative acoustic polyester products.

Bricks and Roofing – revenues up following formation of Bricks Joint Venture

On 1 May 2015, the joint venture between CSR and Boral's brick operations located on the east coast of Australia began operations. Given the structure of the joint venture agreement and CSR's 60% interest, CSR consolidated the earnings of the business effective 1 May 2015 with the portion of after tax earnings attributable to Boral's share of the business recorded as a minority interest.

In its first five months of trading, the joint venture has made good progress integrating the two businesses and is on track to deliver the full year benefit of $7-$10 million in synergies next financial year. Senior management positions were finalised in April 2015 and work is underway to integrate financial systems, operations, sales, marketing and customer service. Roll-out of a consolidated marketing strategy under the PGH Bricks brand was launched in August 2015.

Earnings for PGH Bricks for the half year were higher with volume growth and improved margins across the east coast markets compared to the corresponding period last year.

In August 2015, CSR's New Lynn brick plant located near Auckland was closed with volumes in New Zealand to be supplied from plants in Australia. Earnings from the **New Zealand Brick Distributors** joint venture were lower following a decline in volumes from the previous record levels.

Earnings in **Monier Roofing** were steady with increased volumes reflecting strong demand from the detached housing market in NSW offsetting weakness in Queensland and New Zealand.

VIRIDIAN

Earnings higher following pricing initiatives

A$m unless stated [1]	HYES15	HYES14	change
Revenue	151.8	142.8	6%
EBITDA	7.2	5.3	36%
EBIT	**2.3**	**0.5**	**NM**
Funds employed[2]	191.1	183.6	4%
EBIT/revenue	1.5%	0.4%	
Return on funds employed[3]	**2.6%**	**NM**	

1 *Before significant items.*
2 *Excludes cash and tax balances and certain other non-trading assets and liabilities (including asbestos liabilities) as at 30 September. A reconciliation of funds employed is included in Note B1 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 $151.8 million was up 6% from $142.8 million following the net benefit of pricing initiatives offset by reduced volumes in unprofitable market segments.

EBIT of $2.3 million was up from $0.5 million reflecting the pricing initiatives and improved product mix. As noted previously, Viridian is investing in new product development and various business improvement initiatives to drive further revenue growth.

Commissioning continues on the dedicated commercial double glazing plant in Ingleburn, NSW. This plant will manufacture double glazed units in large format sizes to meet increased demand from commercial projects.

Viridian is also targeting increased volumes in the residential market from double glazing and coated products with new initiatives including the launch of Lightbridge. This new range of high performing insulating glass units (IGUs) delivers improved energy efficiency while providing the benefit of more natural light in housing design.

On 30 April 2015, Viridian acquired the Queensland glass processing business of the Australian Glass Group (AGG) which supports Viridian's strategy of strengthening its core operations and increasing its share of the commercial market. Performance and integration is in line with expectations.

Results from the New Zealand operations continued to improve driven by market activity and operational improvement initiatives.

ALUMINIUM

Earnings up on higher realised prices and improved smelter performance

A$m unless stated [1]	HYES15	HYES14	change
Sales (tonnes)	98,634	101,038	(2%)
A$ realised price[2]	$2,627	$2,503	5%
Revenue	**259.1**	**252.9**	**2%**
EBITDA	68.2	55.1	24%
EBIT	**54.7**	**41.4**	**32%**
Funds employed[3]	196.4	184.4	7%
EBIT/revenue	21.1%	16.4%	
Return on funds employed[4]	**61.7%**	**34.5%**	

1. *Before significant items.*
2. *Realised price in A$ (including hedging and premiums).*
3. *Excludes cash and tax balances and certain other non-trading assets and liabilities (including asbestos liabilities) as at 30 September. A reconciliation of funds employed is included in Note B1 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 5%, to A$2,627 per tonne for the half year as a result of favourable hedging and a lower Australian dollar.

Ingot premiums, the premiums paid to producers above the LME aluminium price, fell in the second quarter of the financial year (July 2015 to September 2015) to US$90−$100 per tonne from US$380 per tonne in the previous quarter. Ingot premiums have since stabilised with third quarter premiums at US$90 per tonne (Source: Platts Metals Week – Main Japanese Port ingot premium). The average ingot premium for the half year to 30 September 2015 was US$238 per tonne, 38% lower than the previous corresponding period.

Gove Aluminium Finance (GAF – 70% CSR) sales volumes of 98,634 tonnes were 2% lower due to the timing of shipments. Trading revenue of $259.1 million was up 2% reflecting the higher realised prices which included the effects of hedging and premiums.

EBIT of $54.7 million was up 32% with the EBIT margin improving to 21.1% from 16.4% due to the higher realised price, continued operational improvements at the Tomago smelter and a $7 million reduction in cyclical costs associated with pot relining. A similar benefit of lower pot relining costs is expected in the second half of the year. In addition, Tomago received an exemption to the Renewable Energy Target (RET) backdated to 1 January 2015 which increased EBIT by $4 million with a comparable savings to be reflected in the second half of the year.

PROPERTY

Earnings impacted by timing of transactions

A$m unless stated [1]	HYES15	HYES14	change
EBIT	**16.2**	**20.4**	**(21%)**
Funds employed[3]	140.0	125.5	12%
Return on funds employed[4]	**19.6%**	**28.0%**	

1. *Before significant items.*
2. *Excludes cash and tax balances and certain other non-trading assets and liabilities (including asbestos liabilities) as at 30 September. A reconciliation of funds employed is included in Note B1 in the half year report.*
3. *Based on EBIT (before significant items) for the 12 months to 30 September divided by average funds employed. ROFE varies due to timing of projects.*

CSR's Property division recorded EBIT of $16.2 million down from $20.4 million in the previous corresponding period. The result includes the second tranche of the multi-residential development site at New Lynn located southwest of Auckland and the sale of industrial land at Erskine Park, Sydney.

Construction continues on stages 3 and 4 of the 533-lot residential development at Chirnside Park, Melbourne with a 110 sales contracts exchanged as of 31 October 2015.

Marketing of the remaining 38.5 hectare industrial site at Brendale in Brisbane is progressing.

OUTLOOK

Looking at the outlook for the year ending 31 March 2016 (YEM16), CSR confirmed:

- **Building Products** to deliver year-on-year earnings growth. Given current construction data and longer lead times from approval to construction, CSR expects demand for its building products to remain at current levels for the medium term.

- **Viridian** is expected to improve its earnings arising from stronger construction activity, market share gains and pricing initiatives. Modest investment in the business will enhance Viridian's capability.

- **Aluminium** sales volumes are expected to be around 3% higher than last year while approximately 70% of the net aluminium exposure for the second half of YEM16 is hedged at an average price of A$2,391 per tonne (excluding ingot premiums).

- **Property** earnings in the second half of YEM16 to be largely derived from settlements at the Chirnside Park, VIC residential development. As a result, Property EBIT for YEM16 is expected to be between $20 to $25 million.

CSR expects that group net profit after tax (pre significant items) for YEM16 will be higher than the previous financial year and will be towards the upper end of the current range of analysts' forecasts of $128 million to $162 million (pre significant items).

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