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CSR Limited – review of results for the year ended 31 March 2016

Trading revenue[1] of $2.3 billion up 14% for the year ended 31 March 2016

EBITDA[1] of $360.0 million up 15%

EBIT[1] of $276.8 million up 18%

- **Building Products** EBIT of $169.1 million up 40%, including consolidated EBIT from the PGH Bricks JV (60% owned by CSR). Higher volumes across all products with increased margins reflecting improved pricing outcomes and factory performance
- **Viridian** EBIT of $8.1 million, up from $3.1 million with improved productivity and pricing lifting margins
- **Aluminium** EBIT of $104.1 million in line with the previous year with increased production and improved smelter performance offset by a lower realised aluminium price (including premiums)
- **Property** EBIT of $23.3 million which included the sale of residential sites at Chirnside Park in Melbourne and the second tranche of the development site at New Lynn, NZ

Net profit after tax (before significant items)[1] of $166.0 million up 13%

Statutory net profit of $142.3 million, up 13% which included $23.7 million (after tax) of significant items, including transaction and integration costs related to the formation of the PGH Bricks JV

Earnings per share[1] of 32.9 cents, up 13% from 29.1 cents

Final dividend of 12.0 cents per share bringing the full year dividend to 23.5 cents unfranked, up 18%

A$m (unless stated)	YEM16	YEM15	change
Trading revenue	**2,298.8**	2,023.4	14%
EBITDA [1]	360.0	313.2	15%
EBIT [1]	**276.8**	235.4	18%
Net finance cost [1]	(5.3)	(4.6)	
Tax expense [1]	(73.4)	(63.1)	
Non-controlling interests [1]	(32.1)	(21.2)	
Net profit after tax [1]	**166.0**	146.5	13%
Significant items after tax	(23.7)	(21.0)	
Statutory net profit after tax	142.3	125.5	13%
Earnings per share[1] **[cents]**	**32.9**	29.1	13%
EPS (after significant items) [cents]	28.2	24.9	13%
Dividends per share [cents]	**23.5**	20.0	18%

[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 year ended 31 March 2016 (YEM16). All comparisons are to the year ended 31 March 2015 (YEM15) unless otherwise stated.*

CSR FINANCIAL OVERVIEW

Best net profit after tax result since the divestment of the Sugar business in 2010

CSR Limited ("CSR") reported today a 13% increase in net profit after tax (before significant items) to $166.0 million for the year ended 31 March 2016.

Earnings before interest and tax (EBIT before significant items) of $276.8 million were up 18%. The results included the consolidated earnings of the PGH Bricks JV (60% owned by CSR) which began operations on 1 May 2015. Excluding the minority portion of PGH Bricks JV EBIT, CSR EBIT was up 11%.

Statutory net profit after tax was $142.3 million, which included a significant items charge of $23.7 million (after tax). Significant items included transaction and 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 $125.5 million for the year ended 31 March 2015.

Tax expense of $73.4 million (before significant items) was up from $63.1 million due to the increase in pre-tax profits. CSR's effective tax rate for the year was 27.0%, a slight decrease from 27.3% in the previous year.

Net cash position of $73.1 million was up from $68.4 million as at 31 March 2015 following higher earnings. The timing of Property settlements led to net cash Property inflow of $15.9 million during the year.

Capital expenditure (excluding Property) was $72.8 million during the year. Of this total, $43.4 million was for stay-in-business projects and $29.4 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 addition, $19.3 million was invested in a number of smaller acquisitions in Building Products and Viridian.

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

In March 2016, CSR commenced an on-market share buy-back of its ordinary shares of up to $150 million. The share buy-back represents a return of surplus cash expected to be generated by the Company. 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 final dividend of 12.0 cents per share on 5 July 2016. The full year dividend has increased by 18% to 23.5 cents and represents a dividend payout ratio of 71% 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 final dividend payable on 5 July 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 31 March 2016, the asbestos provision fell to $334.5 million, the lowest level in 11 years, due to a decrease in future estimated claims in the United States. This provision included a prudential margin of $65.2 million or 24% above the combined estimate of the independent experts in Australia and the United States. CSR paid asbestos related claims of $27.6 million (including legal costs) down 11% from $31.1 million last year.

BUILDING PRODUCTS

Continued strength in residential housing

	YEM16	YEM15	change
Australia			
Detached (12 month starts - 000s) [1]	114.5	108.4	6%
Other residential (12 month starts - 000s) [1]	102.4	85.3	20%
Total Residential Commencements	**216.9**	193.7	12%
Non-residential (A$B) [2]	35.0	35.2	-1%
A&A (A$B) [2]	7.7	7.4	4%
NZ consents (6 month - 000s) [3]	**26.2**	24.2	8%

1. *Source ABS data – (two quarter lag – i.e. actual 12 months to September).*
2. *Source ABS, BIS Shrapnel forecast (value of work done – 12 months to March).*
3. *Source Statistics New Zealand - (residential consents 2 quarter lag – 12 months to September).*

Total residential commencements on a two quarter lag basis for the 12 months to 31 March 2016 of just under 217,000, grew by 12% over the previous 12 month period. Strengthening conditions in New South Wales, Queensland and Victoria more than offset weakness in Western Australia, South Australia and the Northern Territory.

The sustained growth in residential activity on the east coast has created some supply-side constraint, which, combined with the significant increase in high-rise apartment construction, has caused extended lead times between commencement and completion.

This is leading to an increased construction pipeline with detached housing taking an average of nine months to complete while the pipeline in the high rise residential market has expanded to in excess of two years.

The combination of strong annual approvals, stable demand for detached housing and a growing pipeline of multi-residential activity underpins continued strong demand for CSR's products in the year ahead.

Higher volumes and improved pricing lift Building Products earnings

A$m unless stated [1]	YEM16	YEM15	change
Revenue	**1,466.8**	1,211.2	21%
EBITDA	214.9	161.0	33%
EBIT	**169.1**	120.9	40%
Funds employed[2]	903.7	823.6	10%
EBIT/revenue	11.5%	10.0%	
Return on funds employed[3]	19.6%	15.0%	

1. *Before significant items.*
2. *Excludes cash and tax balances and certain other non-trading assets and liabilities as at 31 March. A reconciliation of funds employed is included in Note 2 in the full year report.*
3. *Based on EBIT (before significant items) for the 12 months to 31 March divided by average funds employed.*

Trading revenue from Building Products was $1.5 billion, up 21%, with higher volumes and improved margins across all products. The result includes 100% of the revenue from the PGH Bricks JV which began operations on 1 May 2015. Excluding the minority portion of PGH Bricks JV revenue, Building Products revenue was up 12%.

EBIT was up 40% to $169.1 million with earnings growth across all divisions, reflecting the benefit of higher sales volumes and improved factory performance bringing the result to an all time high. Excluding the minority portion of PGH Bricks JV EBIT, Building Products EBIT was up 28%.

EBIT margin increased to 11.5%, up from 10.0% as improved volume, pricing and product mix flowed through to results.

SUMMARY OF BUILDING PRODUCTS BUSINESS UNIT PERFORMANCE

Gyprock increased earnings with higher volumes reflecting the improved residential construction market while average selling prices increased in most states. Gyprock maintained its market-leading brand position with the extension of its Optimised Core Technology across its core residential product lines. The business also expanded its trade network including the acquisition of Picton Hopkins in Melbourne.

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 continued to increase earnings following strong activity in the multi-residential market and growing demand from the detached housing market as an alternative to brick. The 30% increase in capacity of Hebel's Somersby operations in NSW was completed in November 2015 following a period of strong growth in Hebel's business with compound annual revenue growth of over 20% over the last five years.

AFS walling systems increased earnings following growing demand from the multi-residential market for Logicwall® fibre cement and Rediwall® PVC systems. Commissioning of the Rediwall® manufacturing facility located at Minto, NSW was completed in November 2015 as demand grows for load bearing walling systems.

Bradford earnings increased with higher volumes across all product groups underpinned by strong market activity and improved pricing. The Martini joint venture continued to perform well and included the acquisition of Pacific Non Wovens in July 2015. Bradford Energy Solutions launched a solar PV offering with Tesla batteries in January 2016 targeting demand for battery storage across residential and commercial markets.

Monier roofing earnings grew during the year with increased volumes reflecting strong demand from the detached housing market in NSW and Victoria.

PGH Bricks traded as a joint venture (60% owned by CSR) from 1 May 2015. For the 11 months since formation, PGH Bricks' earnings were higher with volume growth and improved margins across the east coast markets compared to the comparable period last year. The integration of the two businesses is on track to deliver the full year benefit of ~$10 million in synergies in the financial year ending 31 March 2017, of which $2.7 million (consolidated) was realised during the period.

	YEM16			
A$m (unless stated)	Consolidated [1]	CSR 60% stake in JV[2]	YEM15 (CSR bricks pre JV)[1]	CSR % change
Revenue	273.1	167.9	134.0	25%
EBIT	37.0	22.1	18.6	19%
EBIT/revenue	**13.5%**	13.2%	13.9%	

1. Before significant items.
2. The PGH Bricks JV formed 1 May2015, therefore YEM16 CSR 60% stake represents one month of wholly owned PGH Bricks plus 60% of 11 months of consolidated PGH Bricks JV.

Viridian

Earnings higher following improved pricing

A$m unless stated [1]	YEM16	YEM15	change
Revenue	**301.3**	279.3	8%
EBITDA	17.9	12.8	40%
EBIT	**8.1**	3.1	161%
Funds employed[2]	208.4	181.0	15%
EBIT/revenue	2.7%	1.1%	
Return on funds employed[3]	4.1%	1.7%	

1. *Before significant items.*
2. *Excludes cash and tax balances and certain other non-trading assets and liabilities as at 31 March. A reconciliation of funds employed is included in Note 2 in the full year report.*
3. *Based on EBIT (before significant items) for the 12 months to 31 March divided by average funds employed.*

Trading revenue of $301.3 million was up 8% with improved pricing and increased volumes from higher margin products. EBIT of $8.1 million was up from $3.1 million which includes the contribution of a number of bolt-on acquisitions completed during the year.

Viridian is targeting increased volumes in the residential market from double glazing and coated products with a range of marketing activities to build awareness for high performance glass. Earnings improved following strong demand for new products launched during the year including the LightBridge double glazing range.

In February 2016, Viridian commissioned the dedicated commercial double glazing plant in Ingleburn, NSW which will manufacture units in large format sizes to meet increased demand from commercial projects.

The Viridian Trade Centre launched operations in Sydney in May 2015 and provides trade solutions for the glazing industry including trade quality tools, hardware, consumables, services and expert advice. The new business is performing well with further sites under consideration.

In November 2015, CSR announced the proposed acquisition of the remaining 42% stake in the NZ Viridian Glass Limited Partnership (VGLP) joint venture. This acquisition is conditional on the approval by the Overseas Investment Office in New Zealand, and is targeted for completion within the next three months.

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

ALUMINIUM

Volumes higher following improved smelter performance

A$m unless stated [1]	YEM16	YEM15	change
Sales (tonnes)	**210,158**	202,423	4%
A$ realised price[2]	2,525	2,633	-4%
Revenue	**530.7**	532.9	0%
EBITDA	131.0	131.5	0%
EBIT	**104.1**	104.3	0%
Funds employed[3]	167.2	177.1	-6%
EBIT/revenue	19.6%	19.6%	
Return on funds employed[4]	60.5%	55.4%	

The realised aluminium price in Australian dollars (including hedging and premiums) was down 4% to A$2,525 per tonne as the lower Australian dollar was offset by a decline in the LME aluminium price and premiums.

The LME aluminium cash price before hedging averaged US$1,592 per tonne, down 16%; while the Australian dollar averaged 73.6 US cents compared to 87.5 US cents during the previous year.

Ingot premiums, the premiums paid to producers above the LME aluminium price, fell at the beginning of the year, then stabilised around the US$110 per tonne level. The average ingot premium for the year was US$169 per tonne, 58% lower than the previous year (Premiums source: Platts Metals Week – Main Japanese Port ingot premium).

Gove Aluminium Finance (GAF – 70% CSR) sales volumes of 210,158 tonnes were up 4% following operational improvements. Trading revenue of $530.7 million was down slightly from the previous year as the increased sales volume was offset by the lower realised price.

EBIT of $104.1 million was in line with the previous year with the EBIT margin steady at 19.6% as higher alumina costs, due to the weaker Australian dollar, were offset by a reduction of $11.7 million in cyclical costs associated with pot relining. In addition, Tomago received an exemption to the Renewable Energy Target (RET) backdated to 1 January 2015 which had a year on year benefit of $7.9 million.

PROPERTY

Earnings impacted by timing of transactions

A$m unless stated [1]	YEM16	YEM15	change
EBIT	**23.3**	30.2	-23%
Funds employed[3]	133.0	125.5	6%
Return on funds employed[4]	18.1%	23.2%	

CSR's Property division recorded EBIT of $23.3 million, down from $30.2 million in the previous year. The result includes the sale of residential sites at Chirnside Park, VIC in addition to the second tranche of the multi-residential development site at New Lynn, NZ, completed in the first half of the year.

Construction continues on stage 4 of the 533-lot residential development at Chirnside Park with 100 sales contracts exchanged as of 30 April 2016.

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 31 March. A reconciliation of funds employed is included in Note 2 in the full year report.*
4. *Based on EBIT (before significant items) for the 12 months to 31 March divided by average funds employed.*

OUTLOOK

A strong pipeline of residential construction activity underpins the outlook for YEM17

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

Residential construction markets continue to experience record levels of activity which will support demand for CSR's **Building Products** in the year ahead. The pipeline of residential construction activity continues to rise as total commencements for the 12 months to December 2015 were 221,000 compared to 192,000 dwellings completed over the same period.

Viridian is expected to deliver further earnings improvement as it focuses on revenue growth from high performance glass and increasing its share in the commercial market.

In **Aluminium**, Gove Aluminium Finance (GAF) – in which CSR has a 70% stake – has 51% of its aluminium sales (net of alumina) hedged at an average price of A$2,338 per tonne (before premiums) as of 5 May 2016. Ingot premiums, which are paid to producers above the London Metal Exchange aluminium price, have stabilised at around the US$110-$115 per tonne level.

Property earnings are always subject to the timing of transactions. The continuing development of a number of projects will underpin Property earnings over the next five to 10 years.

In summary, CSR will continue with its strategy of investing in building systems that improve the speed of construction while reducing the complexity of building. These investments, together with a more aligned cost structure and network of operations, increases CSR's resilience to fluctuations in the building cycle and better positions CSR to meet the future needs of the market.

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