



4 April 2014

CSR and Boral announce intention to form joint venture of Australian east coast brick operations

CSR Limited (CSR) and Boral Limited (Boral) announced today that they propose to form a joint venture to combine their brick operations located on the east coast of Australia including operations in New South Wales, Victoria, Queensland, South Australia, Tasmania and the ACT.

CSR and Boral will approach the Australian Competition and Consumer Commission (ACCC) seeking clearance for the transaction. Completion of this transaction is subject to clearance by the ACCC.

The proposed joint venture will be owned 60% by CSR and 40% by Boral reflecting the relative valuation of the two businesses. There is no cash consideration as part of the proposed joint venture.

Brick demand in Australia has experienced a sustained structural decline, with bricks becoming an increasingly smaller component of the broader cladding market. Lower brick demand has resulted in declining capacity utilisation, reduced profitability, plant curtailments and closures.

The proposed transaction will enable both Boral and CSR to access additional operational and overhead efficiencies that would otherwise be unavailable to the parties acting independently.

With combined revenue in the order of \$230 million, initial overhead savings of \$7-\$10 million per annum are expected following the formation of the joint venture and integration of the businesses. Longer term, consolidation of selected manufacturing sites will lower per unit costs of production and enable both companies to develop selected high value land assets without impacting product range and operational capability. It also positions the business to deliver returns that recover the cost of capital through building cycles.

Boral's CEO & Managing Director, Mike Kane said: *"The Australian cladding industry has faced major changes in demand over the past 30 years resulting in a significant reduction in brick use. The reduced level of utilisation in our brick manufacturing plants coupled with high input costs has meant that brick production in Australia has been increasingly challenged."*

"This joint venture is aimed at driving efficiencies across the combined network of operations and would provide a path for Boral to realise acceptable returns for our brick business and therefore secure our long-term commitment to the industry."

CSR's CEO & Managing Director, Rob Sindel added *"This joint venture is about retaining manufacturing in Australia and maintaining clay bricks as a choice for consumers in a broader cladding market. It is about strengthening the opportunity for employees and reinvesting in the industry while delivering satisfactory returns through the building cycle."*

BACKGROUND INFORMATION:

The Australian cladding industry

Brick manufacturing is part of a broader cladding industry supplying residential and non-residential construction segments. Australian brick manufacturers have experienced a sustained structural downward trend in demand for brick products over the past 30 years.

Despite a general increase in construction activity over this period, total brick production in Australia has fallen by 46% from its peak in 1981 due to a number of factors including:

- A change in the dwelling mix away from detached houses (which are traditionally more brick intensive) towards multi-residential units and in particular high-rise construction which tends to favour use of alternative cladding materials compared to brick.
- Changing construction methods, which have virtually eliminated double brick construction from detached houses on the east coast of Australia and substituted this with frame and cladding systems using single brick veneer as well as alternative cladding products.
- Emerging trends in external façades in housing that are moving toward rendered walls and alternative cladding materials, including concrete panels, masonry blocks, fibre cement, metal products, timber and glass products.

This reduction in brick demand has impacted the brick industry as a whole and particularly Boral and CSR as declining capacity and reduced plant utilisation has resulted in plant closures and curtailments.

To date, the parties have sought to address these challenges through significant reductions in overhead and operating costs including closing and mothballing plants and entering into cross supply and purchase arrangements in various states.

Despite these actions the brick businesses fail to meet required profitability and overall return on capital employed measures.

Benefits of the proposed transaction

The proposed transaction will enable Boral and CSR to deliver a number of efficiencies that would be unavailable to the parties acting independently including:

- Consolidate overhead costs including sales, administrative and marketing through a single management structure.
- Develop more efficient freight and distribution networks, leveraging the location of the combined manufacturing footprint to improve service and reduce costs.
- Potentially rationalise the number of sites in some states, particularly where sites have been mothballed while investing in other sites to improve operational and technical efficiency.
- Allow redevelopment of certain land assets over time, without foregoing the ability to provide a similar product range and operational capability.

Cost synergies as a result of the formation of the joint venture are expected to position the combined business to recover the cost of capital over the longer term. This in turn will ensure the sustainability of the Boral and CSR bricks businesses.

Proposed joint venture business

The combined business will have capacity of approximately 600 million bricks from 12 manufacturing operations across the east coast of Australia. There are no immediate plans to close any Boral or CSR operating sites following completion of the proposed joint venture.

The following land assets will be excluded from the joint venture, with these properties being leased to the joint venture:

- Scoresby (Boral-owned)
- Schofields (CSR-owned).

Boral will have an option to terminate the lease at Scoresby in 10 years, by providing three years notice. The Schofields site will be leased to the joint venture for five years.

Additional land not currently used for brick manufacturing operations at Bringelly (Boral owned) and Horsley Park and Oxley (both CSR owned) will be excluded from the transaction and retained for development by the respective shareholders. All other sites will transfer to the joint venture.

Further details on the proposed commercial structure are expected to be disclosed following completion of the ACCC review process. Until that time, all Boral and CSR brick operations will continue operating as normal.

A joint-CEO conference call for investors will take place today at 11.00am (Australian Eastern Daylight Standard Time)

Dial-in: 1800 098 754 Conference ID: 19786284

International dial in: +61 2 9338 7300; USA 1888 400 8039

Boral:

Boral is a global building products and construction materials group, headquartered in Sydney, Australia. With leading positions in Australia, Asia and the USA, Boral produces and distributes a broad range of materials and products including quarry products, cement, fly ash, pre-mix concrete, asphalt, clay bricks, clay and concrete roof tiles, concrete masonry products, plasterboard & ceilings, and timber products. See www.boral.com.au for more information.

CSR:

CSR Limited is a leading building products company in Australia and New Zealand which manufactures and supplies products including Gyprock™ plasterboard, Bradford™ insulation, PGH™ bricks and pavers, Monier™ roof tiles and Viridian™ glass. CSR is also a joint venture participant in the Tomago aluminium smelter, located near Newcastle, NSW. www.csr.com.au

Contact details:

Boral Limited
Kylie FitzGerald
Group Communications & Investor Relations Director
Telephone: +61 2 9220 6591 or +61 401 895 894
kylie.fitzgerald@boral.com.au

Boral Limited ABN 13 008 421 761

CSR Limited
Andree Taylor
GM Investor Relations
+61 2 9235 8053 or +61 419 476 588
ataylor@csr.com.au

CSR Limited ABN 90 000 001 276

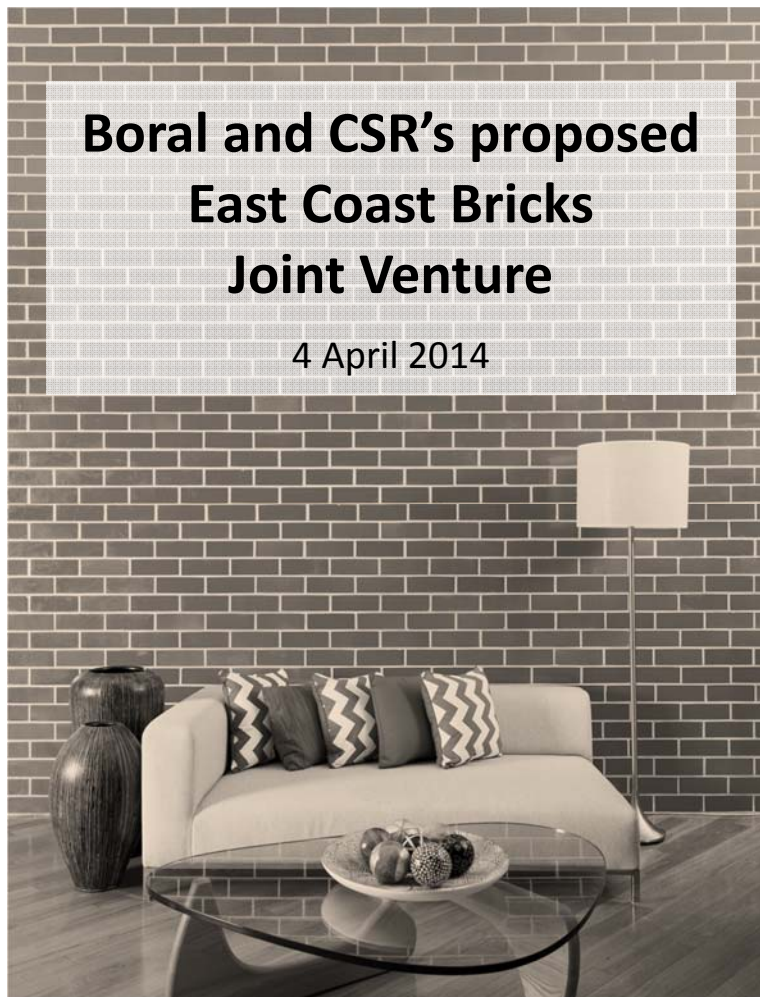
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Boral and CSR's proposed East Coast Bricks Joint Venture

4 April 2014



Mike Kane
CEO & Managing Director



Rob Sindel
CEO & Managing Director

Content

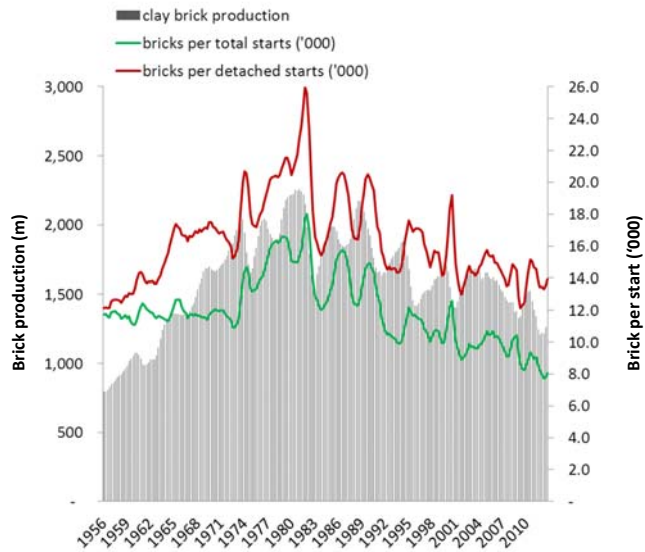
- Background of bricks in Australian cladding industry
- Transaction rationale
- Overview of joint venture structure
- Overview of combined operations
- Summary



Background of bricks in cladding industry

- Bricks are part of a **broader cladding industry**
- Sustained **structural decline in demand for bricks** over past 30 years
- Total **brick production down 46%** from peak in 1981
- Decline **more pronounced on east coast** of Australia
 - From 1991 to 2012, compound average annual rate of decline was 3% Qld, 3% NSW and 2% Vic¹
- Since 1981, **brick intensity** (number of bricks per dwelling) has **almost halved**:
 - Down 48% per housing start
 - Down 41% per detached housing start

Australian brick production and bricks per housing start¹



1. Source: ABS data

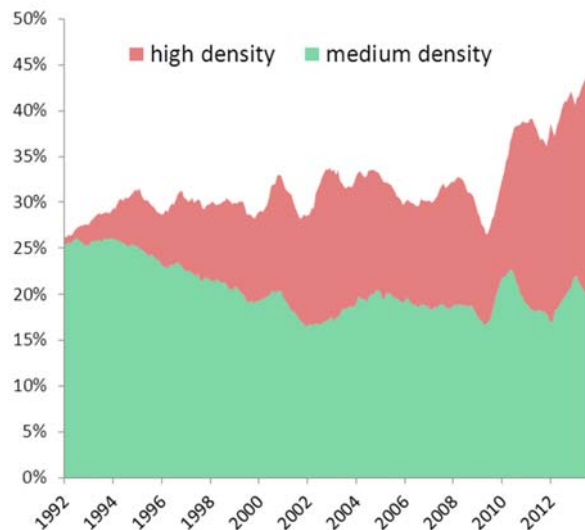


Structural changes impacting brick demand

Structural decline due to:

- Change in **dwelling mix away from detached houses** – traditionally more brick intensive
 - High rise dwellings have grown from under 1% to over 20% of total residential construction in last 20 years
 - High rise tends to favour concrete panels and façade solutions
- Changing **construction methods**
 - Near elimination of double brick construction on east coast
 - Second storey construction using minimal brick
 - Frame and cladding systems using a range of products including single brick veneer
- **Emerging trends** toward rendered walls and alternative cladding materials
 - Lighter weight alternatives to brick with faster construction times
 - Lower fixed cost of production

High and medium density as a proportion of approvals (cumulative)¹



1. Source: ABS data



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Bricks are competing in a broad cladding market

Clay bricks



For load bearing external cladding & face brick façades

Masonry blocks



Hollow blocks constructed from concrete

Fibre cement



Reinforced cement produced as panels or boards

Concrete panels



Precast (manufactured off-site) and tilt-up wall panels (cast on-site)

Composite materials



Composite polymer based materials imitating natural products

Timber



Light weight contemporary construction

Autoclaved aerated concrete



AAC products are lightweight, precast building materials

Other alternative non-load bearing façades:

- Exterior insulation and finish systems (EIFS)
- Structural Insulated Panel Systems (SIPS)
- Metal walling
- Permanent formwork
- Other façades including aluminium, glass, vinyl and weatherboard



Trends impacting bricks share of cladding market

Pre-2000

Today



Face brick commonly used on all external cladding



Rendering using common bricks and / or alternative cladding base



Mixed cladding materials with and without face brick



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Transaction rationale

Strategy

- To create a sustainable competitive bricks business

Optimise operations

- Short to medium term: **consolidate sales, admin and marketing overheads**
- Develop **more efficient distribution networks, improve service and reduce costs**

Reinvestment opportunities

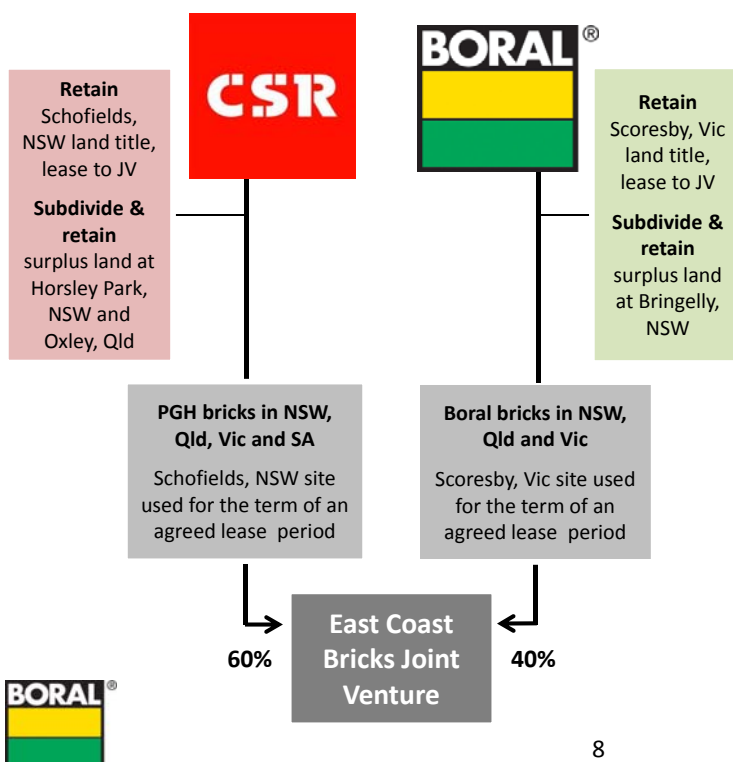
- Longer-term **investment in manufacturing network to enable consolidation** to lower cost, more efficient operating sites
- **Develop certain land assets** without impacting product range and operational capability

Cost synergies

- **Consolidation of overhead costs** into one management structure
- **Further opportunities** over medium to long term, excl property development
- Cost synergies expected to **position long-term sustainable returns** recovering the cost of capital through the cycle



Transaction structure



- **Structure reflects relative valuations** of the businesses
 - No cash consideration
- **No immediate plans to close any current brick operating sites**
- Transaction **subject to ACCC review**
- **Change of control**, which applies to any entity in the chain of ownership, including the parent companies, triggers a call option for the other party at fair market value

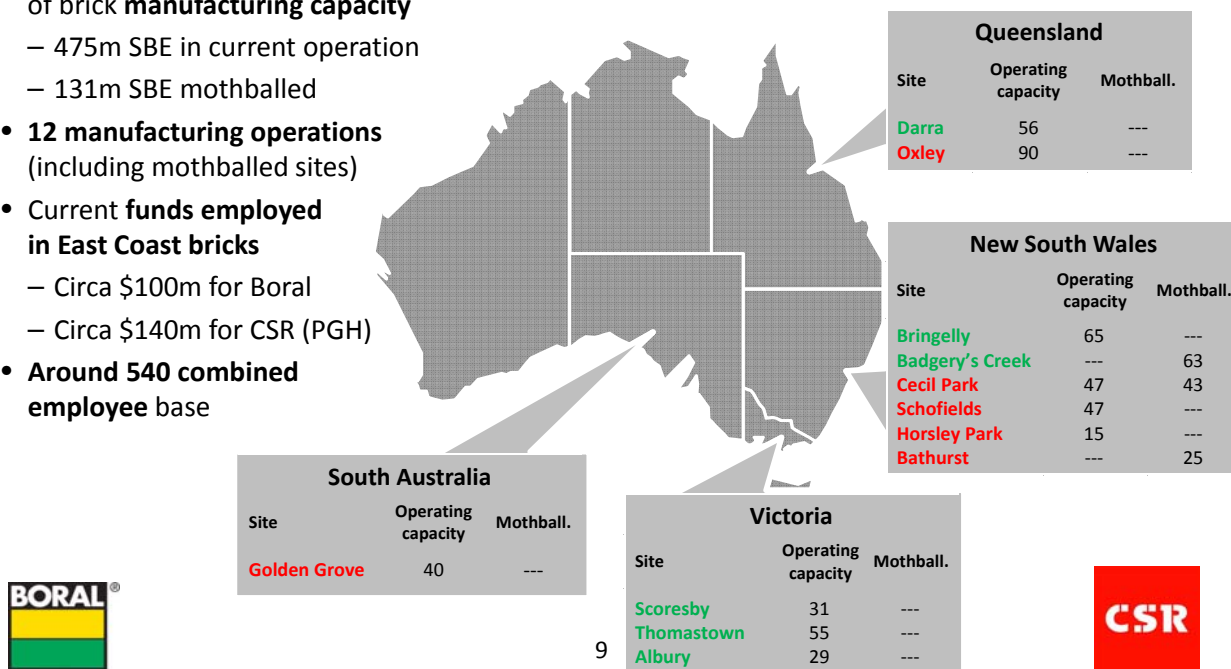


Joint venture operations

- Combined annual revenue of ~\$230 m
- 606 million SBE (standard brick equivalent) of brick manufacturing capacity
 - 475m SBE in current operation
 - 131m SBE mothballed
- 12 manufacturing operations (including mothballed sites)
- Current funds employed in East Coast bricks
 - Circa \$100m for Boral
 - Circa \$140m for CSR (PGH)
- Around 540 combined employee base

JV Sites – capacity by state (million SBE)

■ Boral sites
■ CSR sites



Summary

- Long term commitment by Boral and CSR to Australian brick industry
- Improves economic viability of operations, ensuring a more competitive brick business within a broader cladding market
- Increased capacity to invest in product development, technical efficiency and support for bricklaying trades and apprentice programs
- Provides opportunity to develop more efficient freight and distribution networks to improve service and lower costs
- A stronger and more competitive business provides more opportunities for our people and maintains choice for consumers



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QUESTIONS



Mike Kane
CEO & Managing Director



Rob Sindel
CEO & Managing Director