Boral and CSR’s proposed East Coast Bricks Joint Venture

4 April 2014

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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% Vic
- **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 start**

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. Source: ABS data
Bricks are competing in a broad cladding market

For load bearing external cladding & face brick façades
Hollow blocks constructed from concrete
Reinforced cement produced as panels or boards
Precast (manufactured off-site) and tilt-up wall panels (cast on-site)
Composite polymer based materials imitating natural products
Light weight contemporary construction
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

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
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)

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<tr>
<th>Queensland</th>
<th>Boral sites</th>
<th>CSR sites</th>
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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