



18 December 2014

Boral and CSR East Coast Bricks Joint Venture to Proceed

CSR Limited (CSR) and Boral Limited (Boral) welcome today's announcement from the Australian Competition and Consumer Commission (ACCC) that it will not oppose the joint venture to combine their brick operations located on the east coast of Australia. *A copy of the ACCC press release is attached.*

The proposed joint venture, which was announced on 4 April 2014, 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.

Boral's CEO & Managing Director, Mike Kane said: "We are very pleased with the ACCC's decision to allow our east coast bricks joint venture to proceed. This is good news for customers, employees and shareholders. With Australian brick manufacturing being challenged as a result of a reduction in brick usage and high input costs, the joint venture will allow us to drive efficiencies across the combined network of operations, creating a more sustainable business."

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. It will strengthen opportunities for employees and ensure that customers benefit from a strong supplier in the highly competitive cladding market in Australia".

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.

Approval from the ACCC was the major condition to finalising the transaction. With the review process now complete, the businesses can progress the remaining administrative and contractual issues for formation of the joint venture. Integration planning, which is already under way, can also be accelerated. The formation of the joint venture is expected to be completed in the first half of calendar year 2015.

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NEWS RELEASE

ACCC TO NOT OPPOSE CSR AND BORAL'S PROPOSED CLAY BRICK JOINT VENTURE

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The Australian Competition and Consumer Commission has announced that it will not oppose the proposed clay brick joint venture between CSR Limited (ASX: CSR) and Boral Limited (ASX: BLD).

"The ACCC's view is that the proposed joint venture would be unlikely to substantially lessen competition," ACCC Chairman Rod Sims said.

CSR and Boral are both suppliers of a range of products including plasterboard, insulation, fibre cement, and roof tiles to the building and construction industry in Australia. CSR and Boral's proposed joint venture only includes the manufacture, marketing, and supply of clay bricks in eastern Australia.

"Critical to the ACCC's decision was the assessment that Boral would be unlikely to remain in clay brick manufacturing in eastern Australia if the joint venture does not proceed. Without this conclusion, the proposal raised considerable competition concerns," Mr Sims said.

The ACCC conducted extensive enquiries with the joint venture parties and market participants more broadly since releasing its Statement of Issues.

Documents and information provided to the ACCC since that time support Boral's claims that it is likely to take steps to realise the land value underlying Boral's brick manufacturing sites in the absence of the proposed joint venture.

"The ACCC viewed Boral's claims of market exit in the absence of the proposed joint venture with a great deal of scepticism as often these claims are unsupported and are therefore rejected," Mr Sims said.

"In accordance with its usual practice, the ACCC tested the claims made, including by conducting an extensive review of business records and the financial performance of Boral Bricks East and the examination under oath of two senior executives of the joint venture parties. The ACCC concluded that there was sufficient evidence to support the claims that Boral would exit brick manufacturing on the East Coast and that, on balance, the ACCC should not oppose the joint venture."

Boral and CSR also argued to the ACCC that the price of bricks is significantly constrained by other building products, such as autoclaved aerated products, fibre cement and concrete masonry. The ACCC did not agree.

The ACCC's market inquiries with builders confirmed that for many builders and end-consumers, other forms of external cladding are not close economic substitutes for clay brick.

However, the ACCC did recognise the long term structural shift in demand for clay bricks. This has happened over the past 40 years, due to the growth of multi-residential dwellings where brick is less commonly used as well as the shift from double brick to single brick construction. This has resulted in a significant reduction in demand for clay bricks which has placed pressure on the returns that brick manufacturers have been able to achieve.