

# **BRICKWORKS**

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LIMITED

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11 April 2006

Australian Stock Exchange (Sydney) Limited  
Attention: **Companies Department**

**BY ELECTRONIC LODGEMENT**

Dear Sir/Madam,

Please find attached the Brickworks Ltd Review of Results for the half year ended 31 January 2006, for immediate release to the market.

Yours faithfully,  
BRICKWORKS LIMITED



IAIN THOMPSON  
COMPANY SECRETARY

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**BRICKWORKS LIMITED**

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## HALF YEAR RESULTS

### **New Reporting Period**

SIX MONTHS ENDED 31 JANUARY 2006

#### **Highlights**

- NPAT up 15% to \$46.1 million from \$39.9 million
- Dividend up 10% to 11 cents per share
- Housing downturn reduces Building Products contribution
- Increased Land & Development contribution
- Reduced Washington H. Soul Pattinson equity accounted contribution
- Reduced income tax expense driven by Washington H. Soul Pattinson investments
- In Sydney more than 400 Ha of land designated for development

#### **OVERVIEW**

Net Profit After Tax was \$46.1 million, up 15% on the six months to December 2004. The profit was struck on revenues of \$258.9 million. The NPAT result was the ninth consecutive first half increase.

The result was pleasing in light of the challenging trading conditions for the Building Products business and again demonstrated the benefits of Brickworks' move to a more diversified and balanced approach over the past five years.

As a consequence of adopting AIFRS Brickworks first half now ends 31 January. In Building Products the effect of this change reduced EBIT by \$5.9 million (12%) as the traditional shutdown period of January moved from the second half to the first half result. The change in reporting period had little affect on Investments or Land and Development.

During the period Building Products EBITA fell 25% to \$31.6 million compared to \$42.4 million in the six months to 31 January 2005. Impact on EBITDA was more muted with a reduction of 18% to \$45.3 million from \$55.3 million in the six months to 31 January 2005.

Land and development contributed EBIT of \$15.5 million in the half compared to a negligible contribution in the six months to 31 January 2005. The most significant transaction in the period was the sale of 15 Ha of M7 Business Hub land in Sydney's West to Coca-Cola Amatil Limited.

The total six month equity accounted contribution of Washington H. Soul Pattinson (WHSP) to January 31, 2006 was \$11.9 million compared to \$22.0 million to 31 December 2004.

Income tax expense reduced \$13.9 million largely driven by an AIFRS impact on Washington H. Soul Pattinson (WHSP) equity accounted investment.

The earnings per share (EPS) increased to 34.7 cents per share, up 15% on the 30.3 cents per share recorded in the previous six months to 31 December 2004.

Directors have declared an increased interim ordinary dividend of 11 cents per share fully franked, up 10% from last year, the seventh consecutive increase in interim dividend payout. The dividend is payable on 11 May 2006 with a record date of 27 April 2006.

Brickworks has achieved Total Shareholder Return of 26.1% per annum over the past five years compared to the ASX Accumulation Index of 12.5% and S&P/ASX200 index of 12.5% over the same period.

## **FINANCE**

The total free cash flow before capital expenditure and ordinary dividends was \$60.3 million down from \$64.7 million last year.

Cash flow from operations was \$62.9 million for the 6 months to January 2006 compared to \$45.3 million to December 2004. \$14.2 million was received from Land and Development compared to \$19.1 million last year.

Net Debt has reduced by \$7.1 million from \$189.7 million in July 2005 to \$182.6 million at 31 January 2006.

Debt reduction during the period was in addition to paying Ordinary Dividends of \$27.9 million (up from \$19.8 million), PAVERS Dividends of \$5.4 million and Capital Expenditure of \$23.5 million.

Net Debt to Net Debt plus Equity also continues to improve, finishing the period at 16.5% down from 17.5% at July 2005 and, including PAVERS as Debt, 27.2% as at 31 January 2006.

Finance costs during the period were \$12.7 million, down 15% on last year's \$15.0 million.

Income tax expense reduced from \$14.5 million in December 2004 to \$0.7 million in January 2006. The 2006 tax expense was reduced by \$9.3 million due to the increased tax cost base of the WHSP equity accounted investment as required by AIFRS.

## **BUILDING PRODUCTS**

Building Products recorded a 0.5% decrease in sales revenue to \$236.6 million in the six months to 31 January 2006 compared from \$237.7 million in the six months to 31 January 2005. Excluding acquisitions, revenue fell 6% to \$222.3 million to 31 January 2006.

EBITA to sales margin reduced to 13.3% in the period from 17.9% in the six months to 31 January 2005. If not for significant volume reductions, price increases and manufacturing cost reductions would have resulted in a margin increase as they exceeded the impact of inflation on the total cost base.

Higher depreciation flowing from recent capital expenditure reduced the impact of the trading conditions on EBITDA margin. EBITDA to sales was 19.2% during the half compared with 23.3% in the six months to 31 January 2005.

Dwelling approvals in the six months to 31 January 2006 declined 10.0% to 72,432 compared to the six months to 31 July 2005. This was in line with expectations.

Going against the trend, Western Australia recorded an increase in total dwellings approvals of 7.0% in seasonally adjusted terms.

In NSW, where dwelling approvals had already declined significantly, approvals fell a further 11.0% to 16,385 (seasonally adjusted).

Whilst Victoria recorded an 18.8% decline (seasonally adjusted), it was from a relatively high base providing reasonable levels of building activity.

Nationally, regional areas were stronger than metropolitan areas and single dwellings performed better than multi-residential segments.

Stock was controlled with substantial factory closures in December-January and other months throughout the period. Holdings of bricks and floor tiles fell slightly whilst roof tiles held steady. Building Products inventory value was slightly increased to \$97.1 million resulting from the Timber acquisition.

Safety, health and environment has responded well to management focus with the Lost Time Injury Frequency Rate (a common safety measure also known as LTIFR) reducing by 60% during the period. Several safety programs combined with significant capital expenditure have had a lasting impact. Substantial progress continues to be made on the basis that no safety or environmental incident is inevitable, leaving more to be done before Brickworks can be satisfied.

### **Austral Bricks™**

Nationally, brick volumes sold were down 7.1% compared to the six months to 31 January 2005. Despite the significant pressure on volumes caused by the building industry downturn, brick prices have increased slightly. The full impact of price increases has not been felt due product mix changes.

Volumes were down in New South Wales with Sydney housing particularly hard hit as that state endures a 25 year low in approvals. Austral Bricks™ significant exposure to the Sydney market reduced the overall result for the division.

Western Australia, experiencing strong conditions, recorded modest volume and price gains. Whilst the factories produced at maximum capacity, stocks have been depleted to the point where no further stock reduction is desirable. Bricks are now being shipped into Western Australia from New South Wales in order to

support Austral Bricks™ customers. This temporary measure is expected to continue throughout the balance of the year.

Overall costs were reduced through capital expenditure, cost reduction programs and plant closures however unit costs increased due to 10.6% lower production volume. Increased input costs were evident in most businesses with wages and energy particularly affected. In Western Australia these affects hit hardest with the mining boom driving trades wages up substantially and compounded by substantial increases in meeting new State Government environmental standards.

As many plants have run continuously for several years repairs and maintenance expenditure has continued strongly in order for the plants to achieve the company's high expectation of dependability. The most significant program is underway at Rochedale in Queensland.

During the period Austral Bricks™ moved to take control of its distribution arrangements in parts of New Zealand. Austral Bricks™ are now distributed direct throughout the South Island and regional areas of the North Island.

### **Bristile Roofing™**

The Roofing business has improved substantially during the period. Nationally EBIT increased more than 50% on a 2.8% increase in prices whilst sales volumes were 5.6% lower.

On the east coast EBIT was supported by steady prices and lower costs but impacted by lower dwelling activity. The full impact of recent capital expenditure was felt during the period and resulted in substantially lower manufacturing and interstate transport costs.

In Western Australia cost reductions through efficiency gains and moderate price increases delivered a significant jump in EBIT for the six months to 31 January 2006.

### **Auswest Timber™**

Brickworks acquired 100% of Auswest Timber in June 2005. On 5 December 2005 Brickworks acquired the remaining 58% of Auswest's associate Terra Timbers. This small value adding facility, located in Bairnsdale Victoria, will assist Auswest in its continued efforts to move from a supplier of low margin structural products to high margin niche flooring and other differentiated products. Auswest recorded a flat result in difficult conditions.

### **Eureka Tiles™**

The Australian floor tile market continues to be a difficult environment. Intense competition from predominantly Chinese tile factories and a new domestic entrant is expected to continue.

During the period volume and prices improved due to the success of new products such as Riviera® large format clay pavers. Output has been reduced by 25% in order to control stock and consequently had a substantial impact on unit manufacturing costs.

Eureka Tiles™ continues to make excellent progress on its strategy of moving away from low margin floor tiles subject to fierce import competition and toward niche flooring and walling solutions.

## **New Products**

During the period the latest generation façade product was developed for the Austral Bricks™ business. Known as TerraÇade TL® , the latest in this innovative series of façades is being well accepted by innovative architects and builders throughout Australia.

TerraÇade TL® will be installed by Bristile Roofing™ bringing together Eureka Tiles™ technical capability, Bristile Roofing™ installation expertise and Austral Bricks™ distribution strength.

## **CAPITAL EXPENDITURE**

During the period building products capital expenditure totalled \$22.3 million compared to depreciation of \$13.8 million.

The construction of the new brick plant at Wollert in Victoria consumed the largest portion of capital expenditure in the period. The main building is nearing completion allowing kiln construction and machine installation to begin. The project is expected to be constructed on budget (\$44 million) and be producing bricks as scheduled in February 2007.

During the half the cost reduction project at Riverview, Queensland, was completed. Commissioning will be completed early in the second half and is expected to deliver substantial reduction in unit cost.

At Golden Grove, South Australia, the \$5.5 million refit is nearing completion. The first equipment is now installed and ready to commission. When complete this project will substantially reduce cost of manufacture and improve the flexibility of the plant.

The current capital expenditure program has been disruptive and added to costs. Nonetheless, Brickworks is committed to preparing the business during the downturn for the next cyclical peak.

## **LAND & DEVELOPMENT**

The first six month period of the 2005/06 financial year has seen progress in relation to the Brickworks property realisation program for surplus land holdings. EBIT for the six month period totalled \$15.5 million.

Profit largely came from the sale of land at the M7 Business Hub property, located in Sydney's western suburbs. The sale to Coca Cola Amatil, in conjunction with joint venture partner Macquarie Goodman, comprised 15 hectares (15 Ha). The development of the M7 Business Hub property with Macquarie Goodman is continuing and is expected to underpin sales in the second half of 2005/06.

The property realisation program has considerable momentum and is expected to deliver substantial profit over the medium term. In order to maximise shareholders' long term returns a number of alternative proposals are currently being considered by the Board.

Development of the Eastwood, Sydney, site (13 Ha) has progressed with the commencement of infrastructure and servicing works to the first stage of the development. Progress has been slow due to rehabilitation requirements however the first blocks of land are due for completion in April 2006.

In anticipation of the opening of the M7 motorway, the New South Wales State Government announced in November 2005 the release of additional land in Western Sydney for employment purposes. This will ensure that more than 400 Ha of land owned by Brickworks will be developed in the coming years. The

announcement includes land currently occupied by Austral Bricks™ Plant #23, Horsley Park. Operational requirements for the land are currently being reviewed and a plan put in place which maximises the land value whilst protecting the future of the Austral Bricks™ business.

Work on the redevelopment of the Scoresby, Victoria site (58 Ha) has progressed. Approval to fill the Scoresby site has been received from Knox Council. The rezoning application, lodged in October 2005, has been approved for exhibition in late February 2006.

The redevelopment of the Hallam, Victoria site (19 Ha) has also progressed. This property has an existing industrial zoning. A rehabilitation plan, which removes the need to import material, has been prepared.

## **WASTE MANAGEMENT**

The Horsley Park, NSW and Bowral, NSW waste facilities provided royalties totalling \$830,000 over the first six month period of the 2005/06 financial year. The royalties from the Horsley Park facility, operated by Collex, has continued to be well over the minimum requirement and forecast amount. A further agreement has been reached with Collex to accelerate filling with additional payments to Brickworks.

## **INVESTMENTS**

### **Washington H. Soul Pattinson (WHSP)**

ASX Code: SOL

The Washington H. Soul Pattinson (WHSP) post-tax AIFRS contribution increased to \$21.3 million largely as a result of an AIFRS tax credit of \$9.3 million

arising from the combined effect of a reduced carrying value and increased tax cost base of the WHSP shareholding. A reduced pre tax equity accounted contribution of \$11.9 million was recorded, down from \$22.0 million in the six months to 31 December 2004. This result included a number of non-regular items including some write-down and impairment expenses in subsidiaries and associates with a net total of \$8.8 million.

The market value of Brickworks' 42.85% share of WHSP increased \$31.0 million (3%) to \$1012.0 million during the six months to January 31, 2006. Fully franked dividends of \$30.7 million (\$22.5 million last year) were also received and included a special dividend of 15 cents per share in November 2005.

WHSP has announced a further special dividend to be paid in November 2006.

Investment in WHSP has a 15 year compound return of 17.0% compared to 13.4% in the ASX All ordinary Accumulation Index.

### **Brickworks Investment Company Limited (BICL)**

ASX Code: BKI

BICL has reported a 31% increase in Net Profit After Tax to \$7.7 million for the six months to December 2005 compared to \$5.9 million for the six months to 31 December 2004.

Brickworks equity accounted share of BICL was \$1.7 million. Brickworks owns 22.17% of BICL.

A fully franked dividend of 2.5 cents per share has been declared and was paid on 12 March 2006.

The value of Brickworks investment in BICL increased 8% from \$50.4 million (share price \$1.17) to \$54.5 million (share price \$1.27) in the six months to 31 January 2006.

Net Asset backing pre-tax per share increased 9% from \$1.30 per share to \$1.42 per share at 31 January 2006.

## **OUTLOOK**

### **Building Products**

Commencements are expected to continue to ease with full year 2005/06 commencements forecast to be 140-145,000.

Aggressive stock management and maintenance programs have put the Building Products divisions in an excellent position. In the absence of further interest rate rises, approvals are showing signs that the bottom of the cycle may have been found.

Pricing is expected to track inflation for the foreseeable future although continued localised sporadic discounting by competitors remains a concern.

### **Brickworks**

Brickworks' priorities remain improving Building Products performance and the maximising of Land and Development profits. Small bolt on acquisitions are constantly under review.