



## **REVIEW OF RESULTS**

**JANUARY 2007**

**BRICKWORKS LIMITED**

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***BUILDING PRODUCTS UP DESPITE TOUGH NSW MARKET***

\$ MILLIONS	Jan 06 6 mths	Jan 07 6 mths
<b>REVENUE</b>		
Building Products	236.5	249.1
Property & Waste	22.0	14.3
Other	0.4	0.5
<b>Total</b>	<b>258.9</b>	<b>263.9</b>
<b>Building Products EBITDA</b>	45.3	46.0
<b>EBIT</b>		
Building Products	31.6	33.2
Land and Development	16.3	13.0
Investments	0.2	0.4
Associates	13.6	13.7
Other & H.O.	(2.2)	(3.0)
<b>Total EBIT</b>	<b>59.5</b>	<b>57.3</b>
Total Borrowing Cost (incl PAVERS)	(12.7)	(12.9)
Tax Expense	(0.7)	(7.7)
<b>NPAT</b>	<b>46.1</b>	<b>36.7</b>
Earnings per share (cents)	34.7	27.7
Interim Ordinary Dividend (cents)	11.0	12.0
NTA/Share	\$5.13	\$5.52

## ***BUILDING PRODUCTS UP DESPITE TOUGH NSW MARKET***

### ***Highlights***

- **Group EBIT down 3.6% to \$57.3 million**
- NPAT down 20.4% to \$36.7 million
- Building Products EBIT up 5.2% to \$33.2 million
- Land and Development EBIT decreased 19.9% to \$13.0 million
- Property Trust market value grows to \$58.4 million
- Property Trust value includes \$23.4 million unreported profit to date
- Associates EBIT up 0.5% to \$13.7 million
- Income Tax Expense up \$7.0 million to \$7.7 million
- Interim dividend up 9.1% to 12 cents fully franked

### ***Overview***

Net Profit After Tax in the six months to January 2007 of \$36.7 million was down 20.4% compared to \$46.1 million in the six months ending January 2006. The main factor contributing to the result was a significant increase in income tax expense of \$7.0 million to \$7.7 million. EBIT was \$57.3 million, down 3.6% on the previous year.

Earnings per share (EPS) decreased to 27.7 cents for the six months ending January 2007 (EPS was 34.7 cents for the six months ending January 2006).

Directors have declared a 9.1% increase in the interim dividend to 12 cents fully franked.

The record date for the interim ordinary dividend will be 27 April 2007 with payment being made on 11 May 2007.

The record date for the PAVERS dividend will be 18 May 2007, with payment being made on 1 June 2007.

### ***Financial Analysis***

Income tax expense increased to \$7.7 million in the half from \$0.7 million in the previous corresponding period which included a significant benefit from the accounting for the investment in Washington H. Soul Pattinson (WHSP). In this period the tax expense returned to more normal levels. The actual tax paid during the six months to January 2007 was \$11.6 million compared to \$12.4 million in the previous corresponding period.

The total free cash flow before capital expenditure and ordinary dividends was \$46.3 million, down from \$63.6 million in the corresponding half last year.

Total Interest Bearing Liabilities including PAVERS has increased by \$94.3 million from \$375.6 million in July 2006 to \$469.9 million at 31 January 2007.

During the period significant cash outlays included ordinary dividends of \$33.2 and PAVERS dividend of \$5.4 million along with capital expenditure of \$25.7 million, acquisitions of \$30.5 million and resumption of control of the Eastwood site in Sydney for \$52.6 million, which included the return of amounts received in advance of actual land sales.

Borrowing expenses during the half, including PAVERS dividends, was \$12.9 million, up 1.6% on last half's \$12.7 million.

Net Debt (including PAVERS) to Capital Employed finished the half at 31.3% compared to 27.0% at July 2006.

Gearing (debt to equity) increased to 47.0% at 31 January 2007 from 38.5% at 31 July 2006 including PAVERS.

Interest Cover declined slightly to 5.9 times at 31 January 2007 (6.1 times in January 2006) excluding non regular items and the non-cash portion of Equity Accounted profits. Interest includes bank debt interest and the PAVERS dividend.

Working capital at 31 January 2007 was \$129.3 million compared to \$115.0 million at 31 July 2006. The increases were largely the result of increases in inventory of \$18.8 million. Land held for resale contributed \$4.6 million of this increase, being Eastwood and M7 Business Hub.

Building Products inventory increased by \$14.2 million. Finished goods increased \$8.1 million, of which \$1.5 million was attributed to acquisitions. Raw materials increased \$2.6 million due to accelerated mining at Horsley Park to facilitate additional revenue from Collex. Work in progress increased \$3.5 million due to increased log processing stocks in value adding facilities and a seasonal build up of log stock.

## ***Building Products***

### **Market conditions\***

**Market conditions** deteriorated through the period with dwelling approvals in the six months to 31 January 2007 down 5.3% to 74,095 compared to the six months to 31 July 2006. This was in line with expectations.

In **New South Wales** there were just 7,759 private houses approved in the half. This result is 6.9% lower than the previous low ever recorded in private house approvals, which occurred in the six months to January 1975 when 8,331 houses were approved. Overall 6.1% less dwellings were approved than in the previous corresponding period.

In **Queensland** more prosperous conditions lead to a 7.1% increase in approvals than for the same period last year.

In **Western Australia** the market maintained its strength from a year earlier, though softer than the second half of last year.

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\* Approvals data sourced from ABS Cat. 8731.0 Building Approvals, Australia, Jan 2007

**Victorian** approvals were up 2.4% on a year earlier reflecting the generally better conditions enjoyed in that state compared to New South Wales.

## Results

Half Year Ending 31 Jan		2006	2007	Change %
Revenue	\$mill	236.5	249.1	+5.3%
EBITDA	\$mill	45.3	46.0	+1.4%
EBIT	\$mill	31.6	33.2	+5.2%
Capital Expenditure	\$mill	22.3	22.5	+0.9%
Funds Employed	\$mill	843.9	930.8	+10.3%
EBITDA margin		19.2%	18.5%	-
EBIT margin		13.3%	13.3%	-
ROCE		7.5%	7.1%	-
Employees		1,472	1,466	-0.4%
Safety (LTIFR)		10.9	4.3	-60.6%
Revenue per employee		160,678	169,945	+5.8%
EBIT per employee		21,448	22,664	+5.7%

Sales for the half year ending January 2007 were up 5.3% at \$249.1 million compared to \$236.5 million in the six months ending January 2006. Sales were supported by acquisitions. On a like-for-like basis sales were up 3.0%.

EBIT in the six months to January 2007 was \$33.2 million, up 5.2% on the \$31.6 million in the six months to January 2006. On a like-for-like basis EBIT was up 0.6%.

Brickworks' focus is to maintain the EBIT to sales ratio and profitability despite the

downturn and competitive environment. Building Products achieved a steady EBIT to sales ratio for the six months to January 2007 of 13.3%.

EBITDA was \$46.0 million (18.5% to sales) for the six months to January 2007. This compared to the \$45.3 million (19.2% to sales) in the six months to January 2006.

During the six months to January 2007, \$1.2 million was spent on redundancies which led to a reduction in employee numbers of 86. Building Products employee numbers reduced to 1,398 prior to the inclusion of the 68 net positions after acquisitions and divestments and now total 1,466. The relentless pursuit of the lowest cost base in the industry is underscored by employee productivity. Revenue of \$169,945 and EBIT of \$22,664 per employee compares favourably to our Australian building products peers.

Building Products continued to take advantage of the current housing lull on the east coast to complete an ambitious capital expenditure and maintenance program. To date, the program has achieved significant cost reductions and improvements in the group's safety and environmental performance.

The safety performance improved dramatically by 60.6% in the half with the investment in training and equipment showing results. Across the business a Lost Time Injury Frequency Rate<sup>1</sup> of 4.3 was recorded. Much work remains to be done to convert a solid six month result into an enduring safety record.

Capital expenditure totalled \$22.5 million in the six months to January 2007, compared to depreciation of \$12.6 million. Significant items during the half included the continued construction of the new brick plant in Wollert, Victoria and the upgrade of the existing brick plant in Golden Grove, South Australia.

Exports have suffered in Asia where exchange rates, fuel driven shipping charges (bunker surcharges) and aggressive Asian competitors have all combined to make our products less

<sup>1</sup> Lost Time Injury Frequency Rate (LTIFR) measures the number of lost time injuries per million hours worked

attractive, resulting in lower exports to this region. Exports to New Zealand have continued strongly.

## ***Divisional Results***

**Austral Bricks™** overall brick sales volumes and prices were steady compared to the previous corresponding period. Austral Bricks exposure to the moribund New South Wales residential market resulted in New South Wales falling to 24.3% of total brick sales.

Manufacturing volumes were up slightly as Western Australia squeezed more production from its factories and New South Wales factories began to supply into the West allowing most of the New South Wales factories to run through the December-January period without interruption. Capital expenditure driven efficiency improvements drove cost of manufacture lower on slightly higher volumes. Overall margin gains were recorded in all major markets except Western Australia where higher input costs, driven by the resources boom, eroded historical high margins experienced last year. At the same time marketing expenditure has been boosted by \$2.0 million in the half as part of a long term program to ensure bricks remains well positioned in an increasingly crowded market.

At Wollert, in Melbourne's north, construction of the most efficient brick factory in Australia was nearing completion at the end of January. Construction has subsequently been completed on budget and on time. Commissioning has commenced well and is expected to continue throughout the second half. It is pleasing to announce that as of today, the kiln has begun to push and is anticipated to be at full operating temperature by the weekend. This factory, when fully commissioned, is expected to produce 85 million bricks<sup>2</sup> per annum and will emit one-third less carbon dioxide than the factory it is replacing. All water and most clay will come from the Wollert site further improving the new factory's environmental performance and consequently will reduce the embodied energy of the bricks produced.

At Golden Grove in Adelaide construction of the upgraded brick factory was completed on budget and on time. The introduction of robotic unloading and loading equipment has greatly reduced the cost of manufacture and enhanced production flexibility. Work is ongoing on the kiln, kiln cars and final commissioning which will result in further performance improvements.

Masonry expanded during the year due to a number of acquisitions including GB Masonry (Gympie), Caloundra Block and Whitsunday Concrete and Block (Proserpine), all in Queensland. Ayr Masonry, south of Townsville, is under contract and expected to be completed in the second half. Whilst still being bedded down, the acquisitions are performing well, increasing exposure to the fast growing state of Queensland. Masonry products are branded separately as **Austral Masonry™**, though the business is operated under the Austral Bricks™ management structure.

**Bristle Roofing™** continues to improve with slightly lower volumes more than offset by price increases achieved across all markets and products. Margins increased sharply compared to the same period last year. Bristle Roofing's low exposure to the disappointing New South Wales residential market has assisted the result but nonetheless substantial improvements in factory efficiency, product quality and service have had a measurable impact on profitability.

**Auswest Timbers™** operates mills and value adding facilities in Western Australia, ACT and Victoria. The Western Australian operations are steadily improving, with the strategy of converting green timber to value added products such as flooring beginning to pay off. In

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<sup>2</sup> 85,000,000 standard brick equivalents (SBE)

Victoria modifications to the underperforming Bairnsdale mill are in progress that will significantly improve this production unit's performance. Consequently revenue is up but has not flowed through to the bottom line. The Canberra sawmill is a dedicated roof tile batten mill supplying the Melbourne, Canberra and Sydney markets and as such its performance has been solid. Overall, Auswest experienced a flat profit compared to the previous period.

**Eureka Tiles™** increased sales of imported product and achieved a solid performance from traditional lines. Further production rationalisation to enable a significant lift in imports should see this division produce a viable profit performance.

## ***Land and Development***

The first half of 2006/07 produced EBIT of \$13.0 million compared to \$16.3 million in the same period last year. Land sales and development have irregular cash flow and profits due to the uncertainty surrounding timing issues on any transaction.

**Land Sales** generated a profit of \$10.5 million with sales recorded in the half including 14 Ha to the Property Trust for the Coles cold store development. The first six residential lots were sold at Eastwood for revenue of \$3.7 million. Control of the Eastwood site was returned via the acquisition of the outstanding 50% of Newthorpe from Investa Property Group. Newthorpe was the development vehicle formed to undertake the development of the site.

During the half \$4.8 million was spent acquiring 165 Ha of land bringing total land holdings to approximately 4,570 Ha of which 900 Ha are considered surplus available for development and/or sale.

**Property Trust<sup>3</sup>** activities during the half included securing pre-commitments from Kimberly Clarke and Woolworths for the Mamre Road (Sydney) site and securing development approval for the construction of the Coles cold store and Toll warehouse facilities in the M7 Business Hub (Sydney). Construction of these facilities commenced during the period.

The Property Trust investments are included in Equity Accounted Investments on the Balance Sheet. The carrying value of these properties is \$34.1 million. The current market value of the Brickworks share of those sites is \$58.4 million.

The Development Approval for the Mamre Road site has been received subsequent to period end and will yield a further \$7.7 million in current market value and \$3.3 million additional profit.

**Waste Management** at the Horsley Park, NSW and Bowral, NSW waste facilities provided royalties totalling \$1.0 million over the first six months of the 2006/07 financial year. In addition to the normal operating profits, \$1.2 million was received as compensation from the M7 tollway construction.

## ***Investments***

Through its investments, Brickworks has a substantial exposure to the Australian equity markets. The buoyancy of these markets over the past four years has proven the value of these long term investments. Increases in the value of investments are not booked to profit unless realised. There were no changes to Brickworks' holdings of major investments in Washington H. Soul Pattinson (WHSP) or Brickworks Investment Company Limited (BICL) during the period.

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<sup>3</sup> The Property Trust is a 50:50 joint venture between Brickworks and Macquarie Goodman Wholesale Property Trust

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

ASX Code: SOL

During the half the market value of Brickworks' 42.85% share of WHSP increased \$125.8 million (15.8%) to \$923.4 million at 31 January 2007. Fully franked dividends of \$31.7 million (\$30.7 million last year) were also received and included a special dividend of 15 cents per share in November of both periods.

The total six month equity contribution of WHSP to 31 January 2007 was \$12.3 million compared to \$11.9 million in the same period last year.

At 31 January 2007 WHSP held significant investments in Brickworks, New Hope Coal, SP Telemedia, API, KH Foods, Clover, Pitt Capital Partners and Souls Private Equity. In addition to these cornerstone investments, WHSP maintains a substantial investment in a broad portfolio of listed entities.

During the period WHSP participated in a renounceable rights issue (underwritten by Pitt Capital Partners) in order to re-capitalise KH Foods. API was the subject of further substantial review which has revealed an additional non-regular write-off of \$24.3 million. A new Managing Director, Mr Steve Roche, was appointed in September 2006. New Hope Coal announced in August that it had acquired a 18.8% shareholding in Arrow Energy N.L., a major coal seam gas group, continuing its stated strategy of diversification beyond its domestic coal energy business.

The investment in WHSP has a 15 year compound annual return of 14.2% compared to 13.1% in the ASX All Ordinary Accumulation Index. The compound annual return for five years is 19.5% compared to 15.7% in the ASX All Ordinary Accumulation Index.

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

ASX Code: BKI

BICL has reported a Net Profit After Tax of \$6.5 million to 31 January 2007 compared to \$7.7 million in the six months to 31 January 2006.

Brickworks equity accounted share of BICL was \$1.3 million. At 31 January 2007 Brickworks held 20.6% of BICL issued share capital.

A fully franked interim dividend of 2.6 cents per share was declared for the half year compared to 2.5 cents per share in the previous corresponding period.

The market value of Brickworks' investment in BICL increased 14.9% from \$57.8 million to \$66.4 million in the six months to 31 January 2007 and BICL's total portfolio value increased by 11.2% during the period to \$327.6 million from \$294.7 million.

BICL invests in equities traded on the Australian Stock Market (ASX). As at 31 January 2007, BICL's five largest investments were National Australia Bank, Commonwealth Bank, BHP Billiton, New Hope and St George Bank.

Net Asset backing per share before tax as at 31 January 2007 has also increased to \$1.57 per share from \$1.42 per share as at 31 July 2006, a 10.6% improvement.

The BICL share price has increased from \$1.34 per share at 31 July 2006 to \$1.54 per share at 31 January 2007, a 14.9% increase.

Since 31 January 2007 the Board of BICL has announced a 1:5 renounceable rights issue at \$1.35 per share. It is Brickworks intention to take up its full allocation.

## **Outlook**

### **Building Commencements and Building Products**

Brickworks estimate that residential dwelling commencements will fall 0.6% in 2006/07 to around 150,000. In this environment Building Products businesses will strive to maintain price momentum and match production to demand whilst driving productivity up and costs down to enhance margins.

In Western Australia building conditions would seem to have peaked though a substantial pipeline of work is likely to mask any reduction for some time. In New South Wales there is no recovery in sight, whilst Victoria and Queensland are expected to be relatively steady and the first states to show improvement. Brickworks will continue to develop and grow the masonry business in Queensland to leverage the growth of that state.

Brickworks does not anticipate any improvement in housing starts on the east coast until interest rates start falling and affordability and land supply, particularly in Sydney, improves.

Investigations are well underway to ensure that future profits from both Land & Development and Building Products are maximised. Due to the dual benefits of lower production costs and cash flow from land sales it may be appropriate to accelerate the normal plant replacement program. With that in mind a number of investigations are underway.

### **Land and Development**

The Brickworks land bank is in desirable locations and is expected to contribute strongly to future profits. As previously mentioned, the timing of sales is difficult to predict due to the vagaries of various approval processes. A number of potential clients are in discussion for future projects that would become part of the Property Trust.

### **Investments**

Investments will continue to provide diversity to the income streams from Building Products and Land and Development.

### **Overall**

Brickworks' continues to make progress on the stated goals of developing and growing the Building Products business and extracting value from extensive land holdings.

LINDSAY PARTRIDGE  
MANAGING DIRECTOR