



REVIEW OF RESULTS

JULY 2009

BRICKWORKS LIMITED

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BRICKWORKS DELIVERS RECORD RESULT

\$ MILLIONS	July 08 12 mths	July 09 12 mths	Variance %
REVENUE			
Building Products	520.0	489.3	(5.9)
Property & Waste	33.0	103.0	212.1
Other	0.7	1.2	71.4
Total	553.7	593.5	7.2
EBIT			
Building Products	53.6	37.0	(31.0)
Land and Development	93.7	40.6	(56.7)
Associates & Investments	36.9	95.4	158.5
Other & H.O.	(6.1)	(7.2)	18.0
Total EBIT	178.1	165.8	(6.9)
Total Borrowing Cost (incl PAVERS)	(37.3)	(33.3)	(10.7)
Tax Expense	(32.6)	(18.8)	(42.3)
Normalised NPAT	108.2	113.7	5.1
Non-regular adjustments			
WHSP (non-regular items) (pre-tax)	(9.6)	392.9	
Asset Write Off (pre-tax)	-	(109.0)	
Non-regular Tax expense	2.9	(92.4)	
NPAT (including non-regular items)	101.5	305.2	200.7
Normalised Earnings per share (cents)	81.5	85.6	5.1
Earnings per share (cents)	76.5	229.8	200.7
Final Ordinary Dividend (cents)	26.5	26.5	-
Total Full Year Dividend (cents)	39.0	39.0	-
NTA/Share	\$6.35	\$8.27	30.2

BRICKWORKS DELIVERS RECORD RESULT

Highlights

- Brickworks Headline NPAT up 200.7% to \$305.2 million
- Brickworks Normalised NPAT up 5.1% to \$113.7 million
 - Building Products EBIT down 31.0% to \$37.0 million
 - Land and Development EBIT down 56.7% to \$40.6 million
 - Investments EBIT up 158.5% to \$95.4 million
- Total Interest Bearing Debt reduced by 28.9% to \$400.0 million
- Final dividend of 26.5 cents fully franked

Overview

Brickworks (ASX: BKW) posted a **Normalised** Net Profit After Tax ('NPAT') for the year ended 31 July 2009 up 5.1% to \$113.7 million, compared to \$108.2 million for the year ended 31 July 2008. After non-regular items, Brickworks' **Headline** NPAT was \$305.2 million, 200.7% higher than the previous year.

This record result has again proven the effectiveness of the diversification of earnings provided by the Building Products, Land and Development and Investment divisions of Brickworks.

Normalised earnings per share ('EPS') were 85.6 cents per share, up from 81.5 cents per share for the previous year.

Directors have declared a final dividend of 26.5 cents fully franked, taking the full year dividend to 39.0 cents fully franked, in line with the dividends paid last year.

The record date for the ordinary dividend will be 25 November 2009, with payment being made on 9 December 2009.

Non-regular items

Brickworks result included non-regular items totalling \$191.5 million after tax as follows:

\$m	Gross	Tax	Net
WHSP Equity Accounting	392.9	(117.9)	275.0
Write Down of P&E and Stock	(52.0)	15.6	(36.4)
Redundancy Costs and Provision for Remediation	(15.6)	1.1	(14.5)
BICL write down to market value	(13.7)	6.5	(7.2)
Mark to Market Derivatives (Interest Rate Swaps)	(3.0)	0.9	(2.1)
Land & Development	(24.7)	1.4	(23.3)
TOTAL	283.9	(92.4)	191.5

An after tax non-regular profit of \$275.0 million was recorded by Brickworks from Washington H. Soul Pattinson ('WHSP') (ASX Code: SOL), due to the sale of New Saraji for \$2.45 billion by New Hope Corporation (ASX Code: NHC). A review of the company's assets was conducted during the year to satisfy AIFRS impairment testing requirements. Stock and manufacturing assets totalling \$36.4 million after tax were written off, along with redundancy costs and a provision for remediation of \$14.5 million after tax. An impairment charge of \$23.3 million after tax was taken against property assets including the Property Trust investment.

Financial Analysis

Total Interest Bearing Debt ('TIBD'), including PAVERS, reduced by 28.9% to \$400.0 million at 31 July 2009. This significant improvement was delivered without the need for an equity raising and consequent earnings dilution, boding well for future shareholder returns. The PAVERS were redeemed for their face value of \$165.0 million during the year and replaced with bank debt. TIBD was reduced through the sale of land at Scoresby, Victoria for \$93.7 million, the sale of Brickwork's interest in the Brickworks Investment Company Limited ('BICL') (ASX Code: BKI) for \$44.0 million and the successful sale and leaseback of the Wollert, Victoria factory for \$40.6 million.

Borrowing costs, including PAVERS dividends, decreased by 2.7% to \$36.3 million from \$37.3 million in the prior year due to lower interest rates. This included the mark to market write down of interest rate swaps of \$3.0 million for the year.

Brickworks has no debt facilities due for renewal in the coming year, with the three-year debt facility due for maturity in July 2011.

Gearing (debt to equity) improved to 29.2% at 31 July 2009 from 50.6% at 31 July 2008. Net Debt to capital employed also improved to 21.8% from 32.0% at 31 July 2008. Brickworks met its banking covenants in the year ended 31 July 2009.

Total net cash flow from operating activities was \$132.0 million, up 90.8% from \$69.2 million in the previous year. The increase was mainly due to higher net proceeds from property sales of \$76.9 million.

Capital and acquisitions expenditure was again well contained in response to the prevailing economic conditions with \$17.4 million spent in the year ended 31 July 2009, down 73.4% from

\$65.1 million in the previous corresponding period. Dividends of \$51.8 million were paid during the year.

Working capital, excluding assets held for resale decreased to \$116.3 million from \$150.1 million at 31 July 2008.

Finished goods inventory levels in the Building Products division increased to \$110.6 million at 31 July 2009, positioning the business well for the forecast upturn in the housing cycle, after decreasing to \$96.2 million at 31 January 2009.

Normalised tax expense reduced by 42.3% to \$18.8 million.

Net Tangible Assets per share increased by 30.2% to \$8.27 per share at 31 July 2009, up from \$6.35 at 31 July 2008. Total shareholders equity increased by \$257.9 million to \$1,371.4 million at 31 July 2009.

Brickworks Building Products

Market conditions¹

Total dwelling commencements for Australia fell 17.3% to 131,061 during the year ended 30 June 2009, compared to 158,536 for the year ended 30 June 2008.

While the First Home Owners Grant has been reasonably successful in providing a boost to building activity, high fall over rates prior to commencement combined with unusually long delays from enquiry to commencement stage have limited its impact. The increase in activity from the First Home Owners Grant has to date not outweighed the negative effects on the industry caused by the lack of availability of construction finance and the absence of second and third home buyers, as well as investors in the market.

During February 2009, the Federal Government announced its \$42 billion *Nation Building and Jobs Plan*. This included two critical initiatives for the building industry, the \$14.7 billion *Building the Education Revolution* package to schools for maintenance and construction work and the combined \$6.7 billion packages for public and defence housing. While these initiatives are strong positives for Building Products, with product specifications achieved in most states, orders from these programs have only started to flow after the financial year end.

Dwelling commencements in **New South Wales** were down a further 25.7% to 23,357 from an already historically low base. This level of activity is 54.1% lower than the most recent peak of 50,907 during the year ended 30 June 2000.

Queensland experienced the largest and sharpest decline in building activity with a reduction in commencements of 35.7% to 28,819. The downturn in multi-unit residential construction activity during the year was particularly severe with commencements down 40.2% on the prior corresponding period.

Victorian commencements were steady at 41,818. Good forward planning and the release of affordable land positioned Victoria well to handle the economic downturn. Detached housing commencements declined by 1.1% and multi-unit residential commencements increased by 5.9% in the year ended 30 June 2009.

¹ Data sourced from ABS Cat. 8750.0 Dwelling Unit Commencements, Australia, Preliminary, June 2009

Western Australia experienced a decline in building activity with commencements of 18,376, down 18.1% from 22,448 in the prior year. Multi-unit residential construction was the weakest sector, down 33.1% to 3,580. The decline in Western Australia was not as severe as during previous downturns.

South Australia was the best performing state with an increase in commencements of 1.6% to 12,012.

Tasmanian commencements decreased by 0.5% to 2,888 in the year ended 30 June 2009.

New Zealand Market Conditions²

Building consents were down 39.1% for the year ended 30 June 2009 with the housing sector down 41.1% and apartments down 20.9%. The New Zealand economy has been in recession for five consecutive quarters.

Results in detail

Year Ending July 2009		2008	2009	Change %
Revenue	\$mill	520.0	489.3	(5.9)
EBITDA	\$mill	83.9	64.7	(22.9)
EBIT	\$mill	53.6	37.0	(31.0)
Capital Expenditure	\$mill	26.9	17.2	(36.1)
EBITDA margin	%	16.1	13.2	(18.0)
EBIT margin	%	10.3	7.6	(26.2)
Employees		1,458	1,364	(6.5)
Safety (TRIFR) ³		225.6	180.5	(20.0)
Safety (LTIFR) ⁴		6.6	7.6	15.2

Revenue for the year ended 31 July 2009 was down 5.9% to \$489.3 million compared to \$520.0 million for the year ended 31 July 2008. Revenue in the second half at \$243.6 million was down 0.9% on the first half.

EBIT from the Building Products division was \$37.0 million, down 31.0% on the prior year. EBIT in the second half of \$20.6 million was 25.6% higher, than the first half of the year. Several

manufacturing plants had extended closures during the first half in response to the weaker conditions. All operating plants were able to be run at close to capacity in the second half to ensure building of stock levels to coincide with the forecast increase in demand.

Unit manufacturing costs were higher than the previous year due to the extended plant shutdowns and increases in the price of inputs, in particular natural gas, electricity, manganese and diesel. Natural gas cost increases have been somewhat mitigated with long-term supply contracts extended to 31 December 2014 in most East Coast States. Manganese and diesel prices have eased from peak levels in recent months however remain at historically high levels.

Brickworks continued its commitment to reducing energy with greenhouse gas emissions being reduced by a further 8.1% during the year. A detailed assessment of the likely impact of the Carbon Pollution Reduction Scheme legislation in its current form has been carried out. Systems have been implemented to meet the National Greenhouse Emissions Reporting Scheme requirements. The costs of complying with these reporting requirements have been significant and will only increase with the launch of a carbon trading scheme.

Wage costs across Building Products for non-staff employees were maintained to less than inflation and all staff salaries were frozen during the year.

² Building Consents data sourced from Statistics New Zealand – Building Consents, June 2009

³ Total Reportable Injury Frequency Rate (TRIFR) measures the total number of reportable injuries per million hours worked

⁴ Lost Time Injury Frequency Rate (LTIFR) measures the number of lost time injuries per million hours worked

Employee levels were reduced by a further 94, or 6.5% during the year, to 1,364 at 31 July 2009. This reduction was in response to market conditions, plant closures and efficiencies gained from completed capital projects.

The total number of work injuries has continued to decline with a significant improvement again in the Total Reportable Injury Frequency Rate ('TRIFR') at 180.5, some 20.0% lower than the previous year. Substantial work has been carried out to reinforce a safety conscious culture across the business and the company remains committed to continually reducing the rate of employee injuries.

Capital expenditure was 36.1% lower at \$17.2 million, predominantly representing the completion of existing projects already underway. Projects completed during the year included kiln car, extruder and de hacker upgrades at Longford, Tasmania and Golden Grove, South Australia.

New major capital expenditure projects were halted in September 2007 in anticipation of a downturn in economic conditions. After two years of disciplined constraint the company is prepared to resume more normal capital expenditure levels. A number of worthwhile projects focusing on improved safety, energy efficiency, quality and environmental performance have been identified for delivery.

Brickworks' goal of being *Australia's Best Building Products Company* was supported by the reinvigoration of product lines and display centres across the country. This focus enabled the company to maintain its market leading status in the development and delivery of world-class stylish products.

The recent announcement that the Building Code of Australia will require six-star energy efficient housing from May 2011 is positive news for the clay brick industry⁵. Research has shown that clay brick as a building material has superior energy efficiency, acoustic performance, durability and low ongoing maintenance requirements.⁶ In conjunction with the industry body, Think Brick, a number of eight-star rated homes have already been built across Australia. These projects showcase the sustainability and environmental credentials of clay bricks as a building product of the future.

Divisional Results

Austral Bricks™ overall brick sales volumes were down 11.0% in the year ended 31 July 2009 compared to the prior year, while net average selling prices were up 4.2%.

Production volumes were lower by 5.4% as several sites had extended closures to control stock levels during the year. The lower volumes combined with some significant input cost increases resulted in higher unit manufacturing costs.

Substantial work has been carried out in all States to position the business to take full advantage of the Federal Government's Building the Education Revolution package with the majority of bricks being specified from the Austral Bricks™ range.

Output from the New South Wales factories was controlled at a lower level to match the lower market demand. Extended closures of selected kilns allowed operating kilns to run at close to capacity, leading to lower manufacturing costs and improved profitability, particularly in the second half.

⁵ COAG National Strategy on Energy Efficiency May 2009

⁶ Research conducted by University of Newcastle commissioned by Think Brick

Austral Bricks™ Queensland had a difficult year with extended shut downs of the Rochedale and Riverview factories to control stock. During the shut down the opportunity was taken to carry out extensive upgrades to the Rochedale factory and the business is now in a position to take full advantage of any improvement in market conditions.

The market in Western Australia experienced a significant increase in competition as a result of reduced building activity and the entry of BGC into the brick market. Austral Bricks™ Western Australia still performed well due to its history of outstanding customer service and quality products. The old and inefficient plants at Cardup 2 and Waterloo were decommissioned during the year.

Austral Bricks™ Victoria delivered a steady result during the past year in line with the steady market conditions. The new Wollert factory is consistently operating in excess of design capacity and continues to deliver improved product quality and production efficiencies.

Austral Bricks™ South Australia delivered an increase in volumes and a strong performance for the year. This division also benefited from an improved manufacturing performance resulting from completed major capital works of previous years.

The final stage of the kiln car upgrade was completed at Longford in Tasmania in the second half of the year. The completed plant upgrades have already begun to deliver improved operational performance.

Austral Bricks™ New Zealand delivered a lower result as the country experienced a significant recession. The business has continued to invest in its national distribution network during the last year and is well placed for the eventual recovery in trading conditions.

Austral Masonry™ experienced severe weather and flooding across Queensland and a substantial reduction in commercial building activity. Sales volumes were up 7.0% over the previous corresponding period, in large part due to the contribution of the Yatala business acquired in July 2008. Like-for-like sales volumes excluding the Yatala business were down 18.2% compared to the prior corresponding period. Average selling prices increased by 3.1% for standard masonry and by 4.4% for premium masonry.

A combination of plant shutdowns and reduction in operating shifts were used to maintain inventory at acceptable levels, however this resulted in a lower total manufacturing volume and higher unit manufacturing costs.

Bristle Roofing™ increased average selling prices by 4.0% on the East Coast and 3.6% in Western Australia. Sales volumes decreased by 5.9% during the year, due to depressed trading conditions in Western Australia and Queensland. This was somewhat mitigated by the stronger performance of the Victorian business.

The stylish product range was extended with new colour ranges and the Lodge™, Monaco™ and Chateau™ profiles launched during the year.

Eureka Tiles™ average selling prices were increased by 10.5% in order to recover the higher cost of imported product due to the reduction in the value of the Australian dollar. Overall sales volumes for the division declined 17.8% during the year, with the import segment of the business facing increased competition.

Auswest Timbers™ produced a much improved result during the year as many long-term initiatives such as the investment in dry processing facilities in Bairnsdale, Victoria and

Pemberton, Western Australia started to deliver returns. The higher result was also driven by an 8.6% improvement in average selling prices.

The Auswest Timbers™ hardwood operations underwent an arduous independent audit process to successfully achieve Chain of Custody Environmental Certification under the Australian Forestry Standard ('AFS') AS 4704-2006. This certification allows the business to market hardwood products with the claim that the timber is sourced from certified and sustainably managed forests.

Brickworks Land and Development

Land and Development produced an EBIT of \$40.6 million, a decrease of 56.7% on the record EBIT achieved during the prior year of \$93.7 million.

Property Sales contributed an EBIT of \$29.9 million for the year ended 31 July 2009.

The settlement of the 56 hectare site at Scoresby, Victoria to Mirvac for \$93.7 million was completed on 27 July 2009. The associated quarry at Campbellfield was also disposed of as part of the same strategy for \$5.4 million. The total proceeds were used to reduce debt.

Other property sales for the year include the sale of five hectares of land at Wacol, Queensland to the JV Property Trust for \$8.2 million.

The **Property Trust** generated a net result of \$9.6 million from Development Profit, Trust Distributions and Revaluations.

A total of \$10.8 million profit was realised from development activities during the year. Facilities at Capicure and Southridge Estate on the M7 Business Hub, Ubecco at Interlink Distribution Estate and Wacol in Queensland were completed.

Distributions from the Property Trust increased to \$8.1 million for the year, up 406.3% from \$1.6 million in the previous year.

Properties in the Trust were revalued during the year and a net write down of \$9.3 million was recorded due to increased capitalisation rates. This write down was 1.7% of the market value of the Trust.

The total value of the Trust assets as at 31 July 2009 was \$639.1 million, with borrowings of \$272.5 million, which equates to gearing of 42.6%. Brickworks share of the Trust's net assets value was \$183.3 million. Brickworks subsequently revalued its investment in the Property Trust to reflect its view of current market capitalisation rates, resulting in a non-regular impairment of \$22.9 million reducing the carrying value to \$160.4 million.

Waste Management contributed an EBIT of \$1.8 million from operations at Horsley Park and Bowral in New South Wales, up 5.9% on the previous corresponding period.

Brickworks Investments

The normalised profit from Brickworks' Investments division in the year ended 31 July 2009 was \$95.4 million.

Washington H. Soul Pattinson Limited ('WHSP')

ASX Code: SOL

The normalised profit from this investment was \$91.8 million for the year, up from \$32.1 million in the year ended 31 July 2008.

The market value of Brickworks 48.25% share holding in WHSP increased by \$56.0 million to \$1.125 billion in the year ended 31 July 2009. This investment continues to provide diversity and stability to earnings, with cash dividends totalling \$31.7 million received during the year.

The strong returns from WHSP's largest investment, its 60.7% holding in New Hope Corporation, underpinned both the normalised and headline performance. WHSP has a compound annual Total Shareholder Return for the last 15 years of 16.9%, compared to 9.2% for the ASX All Ordinary Accumulation Index, an outperformance of 7.7% per annum.

WHSP maintains a substantial investment portfolio in a number of listed companies including significant holdings in Brickworks, New Hope Corporation, SP Telemedia, API, Clover, Ruralco Holdings and Souls Private Equity.

Brickworks Investment Company Limited ("BICL")

ASX Code: BKI

Brickworks' equity accounted share of the BICL profit was \$2.3 million. Brickworks divested its entire holding in BICL in February 2009 with the \$44.0 million sale proceeds used to reduce bank debt.

Outlook

Building Products

The economic downturn has not fully abated and it would be premature to conclude that a recovery is in full swing. The anticipated recovery in dwelling construction activity during the coming year is predicated on pent up demand for housing, the continuation of the FHOG in a reduced form, low interest rates, improved construction finance availability and a continuation of improved housing affordability.

The effect of the Building the Education Revolution and social housing programs is likely to be significant. These programs will provide an immediate boost in activity but will also underpin construction activity through to the 2011 financial year. Austral Bricks™ is well placed to take advantage of these initiatives with good inventory levels to meet the likely demand.

Strong rental yields combined with low interest rates may provide the basis for the return of investors to the residential market. Coming off generational lows of activity, a strong recovery is expected in New South Wales that will be assisted by the recent announcement of stamp duty relief for new dwellings under \$600,000.

The strategy of increasing selling prices to ensure margins are at least maintained will continue.

Land and Development

Remediation works have now been completed on the Eastwood site and negotiations are continuing to finalise settlement with AV Jennings.

No new Property Trust projects are expected to commence during the coming year. Whilst demand for new site development work has slowed, a number of potential residential land sales and development opportunities are under assessment.

Rental returns from the Property Trust will again improve as all completed facilities are leased for the coming full year.

Investments

Returns from Investments will continue to provide diversity and stability to Brickworks' earnings and are expected to be solid in the coming year. Cash flow from Investments will be stronger in the coming year due to the special fully franked dividend of 25 cents per share, in addition to the higher ordinary full year dividend, declared by WHSP.

Brickworks Group

With a robust business model, low gearing and a strong balance sheet Brickworks is well placed to take advantage of the expected economic recovery. The outlook for the coming year is for another solid result boosted by an expected recovery in Building Products and another solid return from Investments.

LINDSAY PARTRIDGE
MANAGING DIRECTOR