



## **MANAGING DIRECTORS REPORT**

### **AGM 2002**

Thank You Chairman, Ladies and Gentlemen,

The Chairman has reported to you our overall results, associates and investments. I will cover the clay products operations and the progress we are making to increase the returns on shareholder funds.

### **Report on Financial Year 2001/2002**

#### **Clay Products**

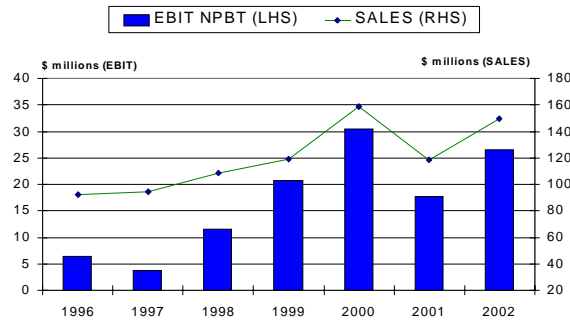
For those of you who are new shareholders, Austral Bricks and Eureka Tiles Australia (previously Austral Tiles), are the trading arms of Brickworks Limited. We have two plants in Queensland, six plants in New South Wales and now two plants in Ballarat Victoria. At full capacity we can produce 440 million bricks and pavers. The new tile factory at Punchbowl and Eureka Ballarat combined will produce 2 million square metres of floor tiles annually.

We are Australia's third largest brick producer and Australia's largest floor tile producer. We employ approximately 620 employees directly. Our plants are the most modern in Australia and are fully automated where possible. We generally run on natural gas and have substantial on site clay reserves. This, combined with our extremely low overheads underpins our position as Australia's lowest cost producer.

We pride ourselves on being not only technically advanced in our factories but releasing major product advances first to the Australian market. We have a substantial technical lead over all our Australian competitors.

## Clay Products Results

- Clay products sales up 26% to \$149.7 mill
- EBIT up by 40% to \$26.5 million
- EBIT to sales ratio 18% up from 16% in 01



The clay products divisions lifted revenue 26% to \$149.7 million and EBIT by 40% to \$26.5 million in line with the housing upturn. The EBIT to sales ratio completed the year at a respectable 18%, up from 16% in 2001.

## Clay Products Results (cont)

- Strong upturn in 01/02 stimulated by:
  - Strong domestic economy
  - Low interest rates
  - First Home Owner's Grant



The strong domestic economy and lowest interest rates in a generation provided the environment for the first home buyer's grant to stimulate a substantial upturn in the housing industry. The subsequent reduction of the grant to \$10,000 on 30th June 2002 has moderated housing sales. Building industry forecasts vary monthly, however a downturn of approximately 10% in 2002/2003 is anticipated.



## Clay Products Results(cont)



- EBIT in second half reduced by:
  - January factory closures (stock and maintenance)
  - Wet weather in NSW in February
  - Disruption due to enterprise bargaining
  - Continued competitor pricing pressure

The second half was slightly less profitable than the first half due to reduced factory operation in January for maintenance and stock control, exceptionally wet weather in New South Wales during February and disruption during enterprise bargaining negotiations in April. All factories now have new three-year enterprise agreements in place and a stable industrial relations environment is anticipated over this period.

Selling prices increased slightly, however remained under pressure from competitors. The closure of a competitor's plant (Norbrik) in New South Wales during the year and the current shortage of bricks in the states we operate augurs well for maintaining price momentum in 2002/2003.



## Clay Products Results(cont)



- EBIT affected positively by:
  - Brick and paver sales volume increasing in line with approvals
  - Full year contribution of Bowral
  - One months trading of Eureka Tiles

Brick and paver sales volumes increased in line with increased housing starts. The result included a full year's contribution from Bowral Bricks and one month of Eureka Tiles Australia.



## Clay Products Results (cont)

- Inventory reduced to \$22.3 million from \$25.2 million (not including Eureka Tiles)
- Capital expenditure \$20.7 mill
  - Punchbowl \$14.9 million
  - Stay in business cap ex \$5.8 mill
- Depreciation \$9.9 million (\$9.5 million in 2001)

Stock levels dropped during the year falling to \$22.3 million from \$25.2 million previously (excluding Eureka Tiles). The operation is therefore in a strong position to run factories at full capacity over the coming year.

## Capital Expenditure

Capital expenditure during the year totalled \$20.7 million being \$14.9 million for the Punchbowl tile plant and \$5.8 million for "stay in business" capital. This compares to depreciation of \$9.9 million (\$9.5 million in 2001). Future capital expenditure will focus on high yielding efficiency improvements, safety and environmental projects.

## Eureka Tiles Australia



## Clay Products Results

### Eureka Tiles Australia

- Eureka Tiles purchased 17 May 2002 for \$13.2 million



On 17 May 2002 The Austral Tile Company purchased Eureka Tiles Pty Ltd for \$3.7 million cash and \$9.5 million debt. The combination of Eureka Tiles and Austral Tiles has formed Australia's largest floor tile producer with capacity approaching two million square metres per annum. The combined company is trading under the name of Eureka Tiles Australia.

 **eurekatiles<sup>®</sup>**  
AUSTRALIA

*Clay  
Products  
Results*

*Eureka Tiles  
Australia  
(cont)*

- Purchase included \$10.3 million land, plant and buildings and \$4.1 million inventory
- Two factories located Ballarat, Victoria



The purchase price included \$10.3 million in land, plant and equipment, \$4.1 million in stock. There was no goodwill or intangibles included in the purchase price of Eureka Tiles Pty Ltd.

Eureka Tiles commenced producing roof tiles in the early 1900's, and then refocused on external floor tiles in the 1960's. The majority of Eureka Tiles current product range is on display today. There are two factories located at Ballarat, Victoria.

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AUSTRALIA

*Ballarat  
Tile Plant*

*Tunnel Kiln*

- Retrofitted Tunnel Kiln
  - Highly efficient
  - Total output 0.3 million m<sup>2</sup> per year
  - Unglazed terracotta and acid tiles



The main Tile factory has two production lines. A traditional tunnel kiln, which has been extensively retrofitted produces a total output of 0.3 million m<sup>2</sup> per year of unglazed terracotta and acid tiles.



***Ballarat Tile Plant***


***Roller Hearth Kiln***

- Modern Fast Fire Kiln
  - Large format glazed slip resistant tiles
  - Total output 0.7 million m<sup>2</sup> per year




In addition a modern fast fire roller hearth kiln is used to produce a range of large format slip resistant glazed tiles with a total output of 0.7 million m<sup>2</sup> per year.

The two production lines offer enormous diversity, efficiency and capacity exceeding one million metres square per annum.




***Ballarat Bathroom Fitting Plant***

- 200,000 fittings per annum
- Tile in and screw on



Also located in Ballarat is the Bathroom Fitting Plant which can produce upward of 200,000 fittings per annum.



**New  
Punchbowl  
Plant**



- Commissioned January 2002
- 1 million m<sup>2</sup> per year
- Unit production cost below imported prices and local competitors
- Quality well above Italian / Spanish / Local Terracotta (Quarry) Tiles

The new floor tile factory at Punchbowl was commissioned in January as previously reported. The factory has performed well, although has experienced normal commissioning difficulties and setbacks as any new plant would in its first nine months. As market demand increases, output will be increased accordingly. The unit production cost is substantially below the imported price of equivalent products and below all local competitors. The quality is well above imported Italian or Spanish tiles and other locally produced Terracotta (Quarry) Tiles.


The skill and experience of Eureka, combined with the new state of the art Punchbowl plant, now give Eureka Tiles Australia a pre-eminent position in this growing market. Eureka Tiles, once fully integrated, has the potential to develop into a substantial business

## New Products and Services



**New  
Products &  
Services**

*Pavers & Tiles  
Punchbowl*



- Large Format Tiles and Pavers
- Terracotta Façade System



With the opening of the new tile plant a number of new products will become available, including large format pavers, tiles, and a terracotta façade system.

**AUSTRAL**  
Build a better home

*New  
Products &  
Services*

*Mediterranean  
Range*

- New Nawkaw™ tinting range
- Revolutionary, permanent, fashion colours



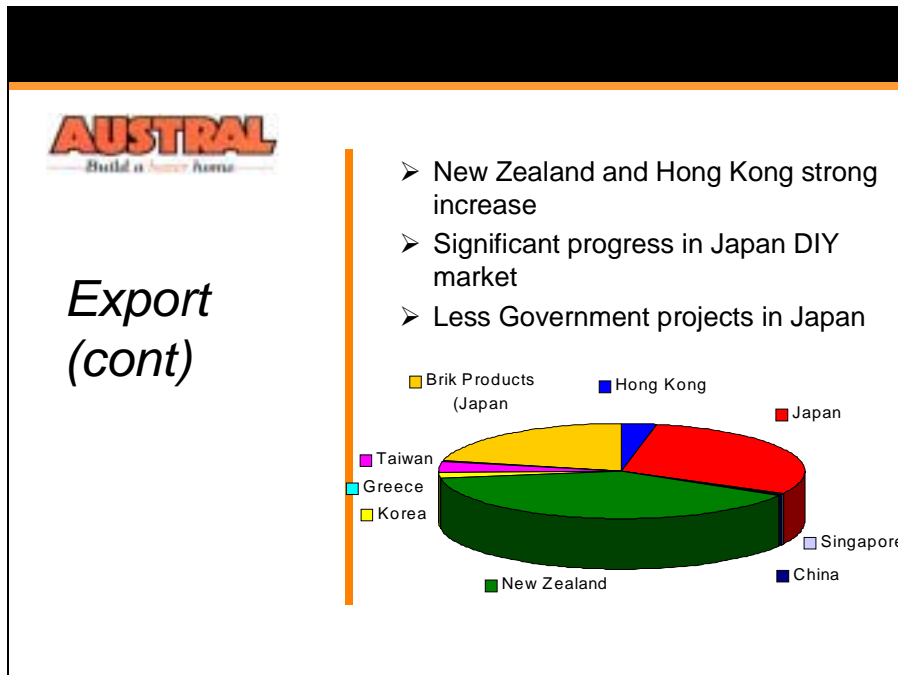
In addition we have launched a new look tinting or staining system in conjunction with Nawkaw Australia. The system uses a specially prepared brick, which is stained after the brickwork is complete. The system has an extremely long life and offers enormous flexibility in design and application.

The new products are receiving praise from builders, architects and designers for their technical excellence and for filling a void in the market. These products, combined with the many others already on the market, are enhancing Austral's and Eureka's reputation for excellence and are enabling us to achieve a premium for our leading edge and unique products.

## Export



Export sales increased by 8% supported by a strong lift in sales to New Zealand and Hong Kong.



Significant progress was made in Japan in the DIY market more than offsetting losses from the Government projects sector, which is in decline. It is anticipated that export sales will continue growing due to a number of new product and marketing initiatives.




Austral's export success was recognised in October with Austral winning the "Large Advanced Manufacturer" Award at the Australian - Japan Chamber of Commerce Awards Ceremony in Brisbane.


Austral was also a nominated finalist in the Large Advanced Manufacturer category for the 2002 Premier of Queensland's Export Awards held at the Brisbane Convention Centre on Wednesday 23rd October.

## Land and Property Realisation

Brickworks property realisation program for surplus land holdings has continued strongly during the 2001/2002 period.



*Land and Property Realisation*



- Maiden property profit \$1.5 million
- Sale of Punchbowl subdivision realised \$3.8 million
- Brookvale sold, will settle February 2003 – estimate \$6.5 million

Profit from property sales totalled \$1.5 million.

On the Punchbowl site, the sub-division and sale of the three excess sites has been successfully completed for a total of \$3.8 million. A further lot has been leased for the long-term storage of sea shipping containers.

At Brookvale, the company entered an agreement to sell the site to a third party in preference to continuing participation in the development of the site. This agreement provides a higher return from the site estimated at \$6.5 million with significantly less risk. The sale is expected to settle in February 2003.

**AUSTRAL**  
Build a better home

*Land and Property Realisation*

*Eastwood*

- Master Plan submitted and exhibited
- Parramatta Council will consider shortly
- Possible 260 to 280 dwellings
- Contract for Stage 1 filling awarded



The development agreement for Eastwood, signed with Clarendon Apartments and Boulderstone Hornibrook, is progressing. The master plan for the redevelopment of the site was submitted to Council in March 2002 and has recently been on public exhibition. The master plan provides for not less than 260 dwellings and not more than 280 dwellings on the site.

The contract for the first stage of filling the quarry at the Eastwood site has been awarded. A development application for the remainder of the filling work will be lodged following approval of the master plan.

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Build a better home

*Land and Property Realisation*

*Mamre Road*

- General agreement reached with Council on Environmental Issues
- Continue to work on some minor issues
- Several interested parties



At Mamre Road, St Marys, progress has been made on the development application to subdivide the 64-hectare site into commercial lots. Various issues that were holding up approval, including the preservation of Cumberland Plain Woodland and a native plant previously thought to be extinct, have been resolved with Council. We will continue to work

with Council until the subdivision is approved. Several parties have already expressed an interest in this land.

**AUSTRAL**  
Build a better home

*Land and Property Realisation*

*Vineyard*

- Progress made on land release
- Servicing and environmental reports commissioned
- Precinct Planning will take at least 1 year



Significant progress has been made on the release of the property known as the Vineyard at Eastern Creek for industrial development under SEPP 59. Servicing and environmental reports on the development capability of the land were completed in August 2002 with release expected soon. Precinct planning will continue through to the end of the current financial year.

During the year the board and management have put considerable effort into evaluating not only the "highest and best use" for these substantial Horsley Park land holdings, but also the means by which the maximum value can be methodically achieved for shareholders.

## **Waste Management**

**AUSTRAL**  
Build a better home

*Waste Management*

*Horsley Park*

- Foreign Investment Review Board approval
- EPA License issued
- Initial \$3.6 million payment received in June



The development contract signed with Collex at the start of last financial year has progressed well. Initial requirements, including Foreign Investment Review Board approval and the issuing of an EPA licence, were met and Collex made an initial payment of \$3.6 million in June.



## *Waste Management*

*Horsley Park (cont)*

- Construction of landfill complete
- Subdivision complete
- Operations commenced in July
- Final payment of \$3.6 million received – total \$7.2 million



Construction of the landfill and sub-division of the land were completed with Collex commencing operations of the landfill in late July 2002. Brickworks received the final payment of \$3.6 million in July 2002. Initial filling rates have exceeded our expectations.

## **Finance**


## *Finance*

- At 30 June 02 total interest bearing debt \$80.3 million
- At 30 June 02 total cash on hand \$11.8 million
- Interest cover ratio 13.6
- Gearing ratio – 11% of capital employed

As at 30 June total interest bearing debt was \$80.3 million and total cash on hand was \$11.8 million. The interest cover ratio was 13.6 with a net borrowing cost payment of \$3.7 million for the year. The ratio of net debt to capital employed was 11 per cent at 30 June 2002.

## General


### *General Philanthropy*



- Donation made to Children's Cancer Institute to purchase preparative ultracentrifuge
- Will assist research and hopefully help improve survival rates for young cancer sufferers

During the year Brickworks took positive steps to improve its philanthropic performance by donating to the Children's Cancer Institute. The donation will allow the purchase of a preparative ultracentrifuge which will greatly assist the research work undertaken by the Institute and will hopefully lead to improved survival rates for young cancer sufferers.

### *Employee Share Scheme*

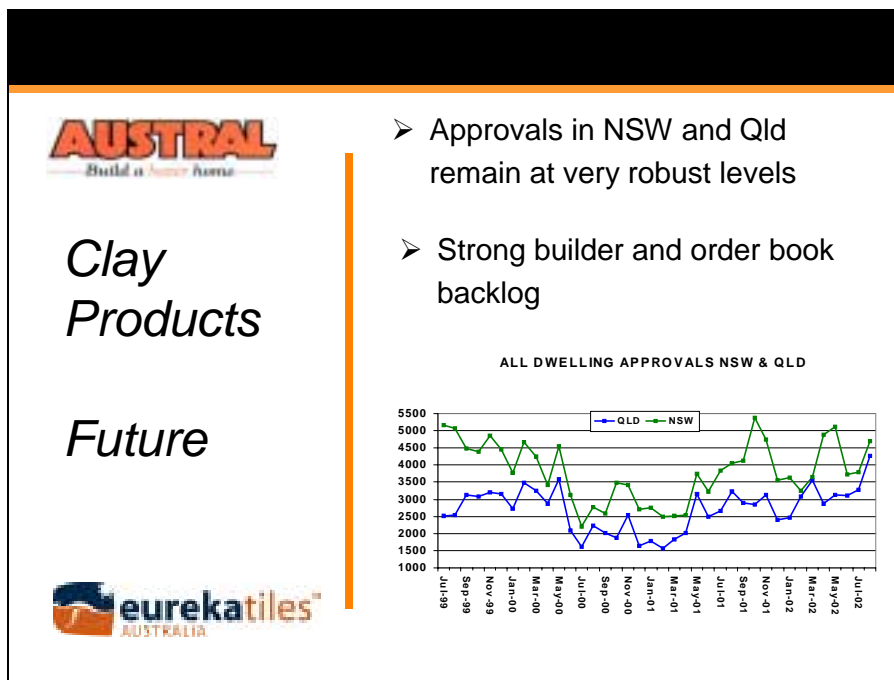


- Employee Share Plan introduced
- Shares purchased under Trust Deed and in accordance with Division 13A of Tax Act
- Administered by Computershare
- 270 staff joined plan
- Strong uptake positive for all shareholders

An employee share ownership plan (based on Division 13A of the Tax Act) has been implemented commencing on 1 July 2002 and is administered by Computershare. Brickworks staff overwhelmingly supported this initiative with over 270 staff members

opting to join the scheme buying shares with their own money and a small contribution from the company. This strong uptake is positive for all shareholders with the interests of a majority of employees now more closely aligned with that of all shareholders. All shares are purchased on market under an independent trust deed, thereby not causing any dilution to existing shareholders.

## Future



At the time of writing, the New South Wales and Queensland markets have continued to perform well and approvals have remained robust. The strong builder order bank, combined with a full construction pipeline, should see a respectable profit in the first six months of the financial year.



Austral's full order book and extremely tight stock levels, combined with a stable industrial relations environment, will allow all brick factories to operate at absolute maximum capacity for the foreseeable future. Only minimal unavoidable closures will take place at Christmas.

Performance First Quarter			
	Sept Quarter 01 \$ million	Sept Quarter 02 \$ million	Var %
Sales	33.1	45.4	+ 37
Clay Products NPBT	6.9	7.8	+ 13
NPAT	4.7	6.4	+ 36

(Unaudited and not Equity Accounted)

In the first quarter clay products increased sales by 37% to \$45.4 million and NPBT achieved an all time record first quarter gross contribution of \$7.8 million.

The NPAT, unequity accounted and unaudited, is up substantially in the first quarter. Earnings from the Horsley Park waste management and contribution from the associated land sale pushed first quarter NPAT up 36% to a record \$6.4 million.

## Employees

Before closing I would like to introduce the senior management of Brickworks:

Peter Caughey, General Manager Eureka; Rod Clark, General Manager Qld; David Fitzharris, General Manager Sales & Marketing; Peter Mahony, General Manager Manufacturing; Megan Tamsett, General Manager Property & Development.

In closing I would like to join with the Chairman and welcome the Eureka staff to Brickworks Limited and thank all staff for their contribution in achieving an excellent result.

**Thank you**