

BRICKWORKS

LIMITED

24 March 2011

Australian Securities Exchange
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 2011, for immediate release to the market.

Yours faithfully,
BRICKWORKS LIMITED



IAIN THOMPSON
COMPANY SECRETARY

BRICKWORKS LIMITED

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REVIEW OF RESULTS

JANUARY 2011

BRICKWORKS LIMITED

REVIEW OF RESULTS JANUARY 2011

BRICKWORKS DELIVERS SOLID HALF YEAR RESULT, PROFIT UP 7%

\$ MILLIONS	Jan 10 6 mths	Jan 11 6 mths	Variance %
REVENUE			
Building Products	263.0	303.5	15.4
Property & Waste	55.0	23.2	(57.8)
Other	1.1	1.0	(9.1)
Total	319.1	327.7	2.7
EBIT			
Building Products	21.8	22.4	2.8
Land and Development	12.3	20.6	67.5
Associates & Investments	41.1	37.9	(7.8)
Other & H.O.	(3.8)	(3.9)	2.6
Total EBIT	71.4	77.0	7.8
Total Borrowing Cost	(10.5)	(9.2)	(12.4)
Tax Expense	(3.9)	(6.8)	74.4
Normal NPAT	57.0	61.0	7.0
Non-regular adjustments	31.2	56.1	79.8
NPAT (including non-regular items)	88.2	117.1	32.8
Normal Earnings per share (cents)	40.7	41.5	2.0
Basic Earnings per share (cents)	63.0	79.6	26.3
Interim Ordinary Dividend (cents)	13.0	13.5	3.8
NTA/Share	\$9.06	\$9.48	4.6

BRICKWORKS DELIVERS SOLID HALF YEAR RESULT, PROFIT UP 7%

Highlights

- Brickworks Normal NPAT up 7.0% to \$61.0 million
 - Building Products EBIT up 2.8% to \$22.4 million
 - Land and Development EBIT up 67.5% to \$20.6 million
 - Investments EBIT down 7.8% to \$37.9 million
- Headline NPAT increased 32.8% from \$88.2 million to \$117.1 million
- Severe weather events reduced Building Products EBIT by an estimated \$1.7 million
- Net debt/capital employed of 12.8%, Net Debt of \$246.7 million
- Interim dividend of 13.5 cents fully franked, up 3.8%

Overview

Brickworks (ASX: BKW) **Normal** Net Profit After Tax ('NPAT') for the half year ended 31 January 2011 was \$61.0 million, up 7.0% from \$57.0 million for the previous corresponding period. Including non-regular items Brickworks' **Headline** NPAT was up 32.8% to \$117.1 million.

Building Products earnings were \$22.4 million, marginally up on the previous corresponding period. The six months to January 2011 were the wettest on record for Australia¹ and led to significant delays in construction schedules. The adverse weather conditions are estimated to have negatively impacted Building Products earnings by \$1.7 million in the period. The combination of extraordinary weather events and the weak trading conditions in Western Australia and Queensland in December and January, countered the strong performance of the first four months.

Investment earnings from Washington H Soul Pattinson ('WHSP') were slightly weaker for the period.

The result from **Land and Development** is significantly improved on the previous corresponding period due to sales of surplus land.

Normal earnings increased despite the difficult conditions as a direct result of the stability of earnings afforded by Brickworks' diversified business model.

Normal earnings per share ('EPS') were 41.5 cents per share, up 2.0% from 40.7 cents per share for the previous corresponding period.

Brickworks profit from non-regular items was \$56.1 million for the period and consisted primarily of the equity accounted profit before tax from WHSP during the period.

Directors have declared an increased fully franked interim **dividend** of 13.5 cents per share for the half year ended 31 January 2011, up 3.8% from 13.0 cents per share for the previous corresponding period.

The record date for the interim dividend will be 28 April 2011, with payment on 17 May 2011.

¹ Bureau of Meteorology, www.bom.gov.au

Financial Analysis

Brickworks has a \$300 million senior **debt** facility that has now been categorised in current liabilities. This three year debt facility is due for maturity in August 2011 and an undrawn (\$100 million) working capital facility is due to rollover at the same time. Negotiations for the new facilities are underway and will be implemented well ahead of the rollover date.

Gearing (debt to equity) reduced to 17.8% at 31 January 2011 from 18.7% at 31 January 2010. Total interest bearing debt ('TIBD') remained steady at \$300 million and Net Debt was \$246.7 million at 31 January 2011. Net debt to capital employed rose slightly to 12.8% for the half.

Borrowing costs were down 12.4% to \$9.2 million due to lower average debt levels and a gain on mark to market valuation of swaps. Interest cover improved to 7.4 times from 5.8 times in the prior period. Total net **cash flow** from operating activities was \$55.1 million, down slightly from \$63.5 million in the previous corresponding period. This included a reduction in special dividends totalling \$12.8 million received from WHSP.

Major cash outflows during the period included ordinary dividends paid of \$39.8 million, capital expenditure of \$21.5 million and the acquisition of the Giroto and Gocrete precast businesses for \$13.8 million plus stock.

Working capital, excluding assets held for resale, at 31 January 2011 was \$195.2 million, a reduction of \$27.1 million during the first half.

The levels of finished goods **inventory** were steady at \$110.9 million compared to the previous corresponding period, even with the unexpected softness in deliveries due to the extreme weather conditions at the end of the half year and business acquisitions. This result reflects measures taken throughout the business to ensure stock levels remain in balance.

Net Tangible Assets per share was \$9.48, up 4.6% from \$9.06 at 31 January 2010. Total Shareholders Equity increased to \$1.683 billion during the period.

The total tax expense for the period was \$30.9 million, \$13.5 million below tax at the 30% tax rate. This included \$15.2 million due to a reduction in the difference between the book and tax carrying value of equity accounted investments, less \$1.7 million in other tax adjustments for non-deductible and deferred tax items. Tax expense in the previous period to January 2010 included a significant credit amount arising from an increase in the tax carrying value of the investment in WHSP.

The normalised **income tax** expense for the period has increased by \$2.9 million compared to the previous corresponding period on increased property earnings and reduced borrowing costs to \$6.8 million for the period.

Total **non-regular** items for the six months ended 31 January 2011 were \$56.1 million after tax, up from \$31.2 million in the prior period. As previously reported NHC, an associate of WHSP, sold its stake in Arrow Energy Limited for an after tax gain of \$326.3 million. Brickworks' equity accounted share of this profit was \$83.4 million before tax.

Brickworks Building Products

Market conditions²

Dwelling **commencements** for **Australia** for the six months ended 31 December 2010 increased to 82,208, up 3.4% from 79,472 in the previous corresponding half year. Multi-unit dwelling commencements increased 39.6% to 29,379 in the period, with the strongest growth in Victoria and New South Wales. An increase in activity in this market is particularly promising for bricks and masonry in medium density and concrete precast panels in the high rise market.

Activity in dwelling commencements is expected to stabilise at an annualised rate of 150,000 to 155,000 for the coming year. While Victoria continues to experience record activity levels, Queensland commencements have fallen to levels experienced at the bottom of the cycle, while approvals are now below.

The value of approvals in the **industrial** sector in Australia increased by 23.2% to \$1.740 billion for the six months to 31 January 2011 compared to the previous corresponding period. **Commercial** building approvals increased by 28.4% to \$5.303 billion for the period. The commercial and industrial markets were showing signs of growth towards the end of the period.

The **Building Education Revolution** ('BER') and **Social Housing** stimulus programs provided a positive impact on activity in the first half. The programs are coming to an end with most States almost complete, except for Victoria where it is less than half complete.

New South Wales commencements increased by 5.7% for the six months to 31 December 2010 compared to the previous corresponding half. Detached housing commencements were down by 7.2% to 7,978 for the half while multi-unit residential commencements were up 27.3%.

Commencements in **Queensland** decreased by 15.7% compared to the previous corresponding half, to a total of 14,218 dwellings during the six months to 31 December 2010. There are reports of a significant backlog of work due to Queensland experiencing the wettest year on record in 2010 and the January floods.

The Queensland market is facing a number of significant challenges that are dampening demand for new dwellings. Interstate migration has reduced substantially as housing is no longer more affordable than New South Wales or Victoria. There is also a reported multi-year oversupply of apartments on the Gold Coast and other tourist destinations.

Total dwelling approvals in **Victoria** exhibited continued strong growth in the six months to 31 December 2010 up 18.2% on the previous corresponding period to a record 31,061. Multi-unit dwelling commencements increased 80.4% over the half while detached housing fell 3.6%.

The annualised rate of approvals in Victoria of over 60,000 is running at a record level well above the twenty year average approvals of 39,000, with Victoria substantially outperforming all other states. Strong population and economic growth with good support from government through first home owner grants and sustained release of affordable land for development, continues to drive demand for new residential dwellings.

Commencements in **Western Australia** for the half year ended 31 December 2010 declined 5.3% to 10,816 compared to the previous corresponding period. Multi-unit dwelling commencements were up 14.7% while detached housing declined 8.7% to 8,852. A lack of

² Original data sourced from ABS Cat. 8750.0 Dwelling Unit Commencements, Australia, December 2010

affordable and titled land for development combined with restrictive lending practices constrained building activity levels in Western Australia.

In **South Australia** total commencements were steady at 5,795 for the six months ended 31 December 2010 compared to the prior period. Detached housing commencements for the period increased by 2.3%, while multi-unit decreased by 6.9%.

Tasmanian commencements decreased by 4.1% to 1,568 for the half year ended 31 December 2010 compared to the previous corresponding period.

New Zealand Market Conditions³

Building consents decreased by 12.6% for the six months to 31 January 2011 with the housing sector down 14.1% and apartments up 12.0%. The New Zealand economy and building industry has been in rapid decline this half with housing consents approaching record lows in January 2011.

Building Products Results in detail

Period Ending 31 January 2011		2010	2011	Change %
Revenue	\$mill	263.0	303.5	15.4
EBITDA	\$mill	34.6	35.6	2.9
EBIT	\$mill	21.8	22.4	2.8
Capital Expenditure	\$mill	9.2	14.3	55.4
EBITDA margin	%	13.2	11.7	(11.4)
EBIT margin	%	8.3	7.4	(10.8)
Employees (July 10)		1,414	1,501	6.2
Safety (TRIFR) ⁴		169.8	238.7	40.5
Safety (LTIFR) ⁵		3.0	2.8	(6.7)

Revenue for the half year was \$303.5 million, up 15.4% from \$263.0 million for the previous corresponding period.

Building Products EBIT of \$22.4 million for the six months to 31 January 2011 was up 2.8% from \$21.8 million in the prior period.

The Building Products business was tracking well and the first quarter trading update reported earnings up over 15%

compared to the prior period. The extraordinary weather events in the second quarter severely affected sales and profits on the east coast. The weaker market conditions in Western Australia and Queensland also contributed to a softer result in the second quarter.

The **EBIT to Sales Margin** was 7.4% for the six months ended 31 January 2011, down from 8.3% in the prior period. Accounting for the recent acquisitions, on a like for like basis the EBIT to Sales Margin would have been 8.5% for Building Products. The precast acquisitions have led to a fundamental shift in Building Products sales margin. Precast has inherently lower margins due to the supply and install nature of the business.

Including the businesses acquired in the first half **employee** numbers increased by 87, or 6.2%. On a like for like basis excluding acquisitions, employee numbers reduced by 24, or 1.8%. This reduction in employee levels was brought about by the continued drive for operational excellence and efficiency.

The Lost Time Injury Frequency Rate ('**LTIFR**') of 2.8 for the six months ended 31 January 2011 was a further improvement to the LTIFR of 3.0 reported for the 2009/10 financial year, even though the Total Reportable Injury Frequency Rate ('**TRIFR**') increased.

³ Original data sourced from Statistics New Zealand – Building Consents, January 2011

⁴ Total Reportable Injury Frequency Rate (TRIFR) measures the total number of reportable injuries per million hours worked. 2010 figures are for the year ended 31 July 2010

⁵ Lost Time Injury Frequency Rate (LTIFR) measures the number of lost time injuries per million hours worked. 2010 figures are for the year ended 31 July 2010

As part of Brickworks' ongoing program of providing world class selection and **display centres** a substantial upgrade of the display centres at Armadale in Western Australia, Horsley Park and Bowral in New South Wales and Christchurch in New Zealand were completed in 2010. A number of new design centres were also completed during the year including Geelong in Victoria, Busselton in Western Australia and Cairns in Queensland. To maintain the company's market leading status a number of upgrades of existing displays and new centres are planned for the second half.

Capital expenditure increased to \$14.3 million in the period, up from \$9.2 million in the previous corresponding period. Stay in business capital expenditure was \$9.2 million, representing 69.7% of depreciation. Major capital expenditure was \$5.1 million including the expansion of the Wollert plant in Victoria and the commencement of the upgrades to the automated precast plant at Wetherill Park in New South Wales. In addition to the \$14.3 million, \$6.6 million was also spent acquiring strategic properties for the Building Products business.

Emissions increased by 3.4% to 224,708 tonnes of greenhouse gases⁶ during the half compared to the previous corresponding period due to increased production to meet demand and recently acquired businesses. Brickworks has been able to reduce total emissions by 29.3% from the peak in 2002/03 despite the substantial growth in the company. The company is committed to further reductions as evidenced by the construction of a new low emission brick plant in Victoria to replace a previous generation, high emission plant. This plant will reduce emissions by 40% compared to the facility being replaced.

Divisional Results

Austral Bricks™ overall brick sales volumes were up 5.5% in the six months to 31 January 2011 compared to the six months ended 31 January 2010, while net average selling prices were up 1.9%.

Manufacturing volumes were increased to match the increased demand and unit production costs were held steady despite energy costs increasing by 6.3% nationally.

New South Wales delivered a substantially improved result as the business took full advantage of the BER and social housing stimulus programs. Margins improved as average selling prices increased by 2.8% and manufacturing costs decreased by 2.1%. Compared to the previous corresponding period an extra plant ran for the entire half in New South Wales to meet improved demand.

The two brick plants in **Queensland** ran at less than optimal efficiency for the half due to poor demand caused by reduced affordability and the wet weather. It is anticipated that only one plant will operate in the third quarter of the year as the poor market conditions continue. Both brick plants were shut down for scheduled maintenance and to control stock levels in January so whilst sales were impacted, no production time was lost during the floods even though the water made it to the wall of the Riverview factory.

Western Australia contributed a lower EBIT with sales volumes affected by weaker building activity levels caused in part by the lack of affordable and titled land for development. In spite of the adverse market conditions and increased competition, average selling prices were maintained.

⁶ The emissions quoted are scope one and scope two emissions only and do not include fugitive emissions.

Manufacturing costs were well contained in Western Australia. Two plants were taken off line over the Christmas period for scheduled maintenance and to manage stock levels.

Earnings from **Victoria** lifted significantly in the period, reflecting the strong market conditions. Sales volumes increased in line with the lift in market activity. Average selling prices were constrained by the increased proportion of sales to higher volume lower margin builders. The result could have been even better if not for significant rainfall during the period that led to delays in the construction program of most builders.

South Australia produced its fifth year in a row of increased first half earnings with sales volumes and EBIT both up significantly on the prior period. A shortage of high value pavers due to all available capacity being applied to produce bricks led to a reduction in the average selling price. However the slight drop in selling prices was more than offset by a 6.6% decrease in manufacturing costs. The plant has been maintained at maximum capacity throughout the period and all products have been returned to stock and selling prices have increased.

Tasmania delivered a substantially improved result on lower sales volumes in spite of the weaker levels of building activity in the period. Average selling prices were able to be increased by 8.6% and manufacturing costs reduced by 10.1%, resulting in solid improvement in margins.

Despite the deterioration in market conditions in **New Zealand** the business achieved a substantially improved result. The focus on optimising the national distribution network, introducing premium products to the market and reducing overheads led to the improved result.

Austral Masonry™ has the greatest exposure to Queensland of any of the Building Products businesses and was adversely impacted by the extraordinary weather, particularly in the second quarter. On a like for like basis, excluding the Port Kembla acquisition, sales volumes were down 5.0% for the six months ended 31 January 2011, however up over 20% including Port Kembla. Average selling prices were able to be increased by 2.6% compared to the prior period, assisted by the introduction of a greater product range.

The wet weather caused a number of plant closures due to plants being isolated, employees being unable to attend work and issues with supply of raw materials. As a result of the weather impacts, energy cost increases and rising packaging costs, unit manufacturing costs were up 5.9%.

Bristle Roofing™ achieved another lift in earnings as sales volumes on the east coast were steady despite the adverse trading conditions. The average selling price improved by 3.0% as the first home owner work diminished. Production costs rose on lower volumes as production time was lost in Queensland due to the weather and the Dandenong plant in Victoria was closed for scheduled maintenance over the Christmas period.

In Western Australia average selling prices increased in the half as the proportion of first home owner work diminished. Sales volumes also increased compared to the prior period as market share gains achieved through innovative new products have been consolidated.

Austral Precast™ provided a positive, if not significant, contribution to earnings in the first half. It was previously reported that the overall precast business was at break even position. The integration and turnaround plan is already beginning to deliver results and it is anticipated that profitability will continue to improve.

Auswest Timbers™ delivered another improved result primarily due to increased margins as the growth in average selling prices was double the increase in unit manufacturing costs. The increase in selling prices is a result of the strategy to reposition the product mix more

towards higher margin value added products. Sales volumes were steady compared to the previous corresponding period.

Brickworks Land and Development

Land and Development produced an EBIT of \$20.6 million for the half year ended 31 January 2011, an increase of 67.5% from \$12.3 million for the prior period.

Property Sales contributed an EBIT of \$14.9 million for the six months to 31 January 2011 and comprised the sale of two lots on the M7 Business Hub Estate. There is only 4 hectares of undeveloped land remaining in the estate from a total of 150 hectares.

Earnings from the JV **Property Trusts** resulted in an EBIT of \$5.5 million for the half, up 37.5% from \$4.0 million in the previous corresponding period.

Net property income distributed from the Trust decreased to \$3.0 million from \$3.6 million in the prior corresponding period due to a one off refinancing cost in the Erskine Trust.

Capitalisation rates have now stabilised at 8.0% to 8.5%. Increases in rentals led to revaluation adjustments during the six months to 31 January 2011 contributing \$2.5 million, up substantially from \$440,000 in the prior period.

No developments were completed in the six months to 31 January 2011. The construction of two new facilities on the Oakdale estate for DHL totalling 36,000m² are well underway and scheduled for completion in the second half of 2011.

Total Property Trust assets at 31 January 2011 were \$609.1 million, with borrowings of \$243.5 million, giving a total net value of \$365.6 million. Brickworks share of the Trust's net assets was \$182.8 million, up \$6.8 million from 31 July 2010.

Waste Management EBIT was \$1.1 million for the six months to 31 January 2011, up 51.5% from \$726,000 in the previous corresponding period.

Brickworks Investments

Washington H. Soul Pattinson and Company Limited ('WHSP')

ASX Code: SOL

Investments contributed \$37.9 million normalised earnings, including \$1.0 million in interest received. Brickworks' investment in WHSP returned a normalised contribution of \$36.9 million for the half year ended 31 January 2011, down 7.8% from \$40.0 million in the previous corresponding period. Brickworks' investment also contributed the \$83.4 million non-regular item before tax as previously mentioned.

The market value of Brickworks 42.85% share holding in WHSP was \$1.261 billion, down 5.4% or \$68.0 million, from \$1.329 billion at 31 July 2010. During the period fully franked dividends of \$33.2 million were received.

WHSP has a compound annual return of 13.7% over the 15 years to 31 January 2011, outperforming the ASX All Ordinaries Accumulation Index by 4.4% per annum over this period.

WHSP holds a significant investment portfolio in a number of listed companies including Brickworks, New Hope Corporation, TPG Telecom, API, BKI Investment Company, Clover, Ruralco and Souls Private Equity.

Significant Items since Balance Sheet Date

On 18 February 2011 Brickworks purchased East Coast Masonry, a Coffs Harbour based producer of concrete masonry products, for \$2.5 million. The acquisition further expands the geographic manufacturing footprint of Austral Masonry in New South Wales, complementing the existing businesses in Eastern Australia.

Brickworks' sites in North Queensland sustained only minor damage from Cyclone Yasi, which crossed the coast on 3 February 2011. All sites were operational again within a few days and no employees in the region were harmed.

Equally, the earthquake in Christchurch, New Zealand on 22 February 2011 did not harm any employees and caused only minor damage to Brickworks' premises. The thoughts of Directors and staff are with the people of New Zealand during this difficult time.

Outlook

Building Products

Brickworks anticipates that activity levels in the housing construction market will remain at current levels for the coming year, barring any further interest rate increases or the implementation of the proposed carbon tax.

The Gillard government's proposed **carbon tax** will raise further the price of all building materials. This will negatively impact housing affordability throughout Australia at a time when it is already unaffordable and construction levels are well below underlying demand. The end result will be manufacturing and investment moving offshore, jobs will be put at risk, the cost of housing will increase and there will be no reduction to carbon emissions.

Investment in new housing has suffered from recent interest rate increases and any further rate rises will significantly constrain new dwelling construction.

Demand for new dwellings is patchy and varies by State. There is a significant housing shortage in New South Wales and a change in government may result in policy changes to address the land supply and affordability constraints. There is a continued record level of construction activity in Victoria. The rental vacancy rate is reducing in Western Australia, indicating any oversupply is being quickly reduced.

Queensland has a substantial oversupply of units in tourist areas and housing affordability relative to the other eastern states is poor. Queensland is expected to make a slow recovery due to reduced levels of interstate migration. Past experience suggests any demand driven by rebuilding after the recent floods and cyclone will take at least 12 months to flow through.

New Zealand has been greatly affected by the earthquakes and the rebuilding process is expected to take a number of years to complete with an estimated 13,000 replacement homes required in Christchurch. This is one year's construction at the current national rate.

The expansion of the new Austral Bricks plant at **Wollert** is expected to be commissioned in the next financial year. The replacement of existing capacity with a state of the art, low cost manufacturing facility in the strongest building market in Australia will provide a boost to earnings.

Nationally, the commercial and industrial construction markets are expected to improve in the coming year. Improving market conditions, operational efficiencies and synergies will contribute to an improved contribution for the **precast** business in the second half. Austral Precast has recently won a number of large contracts and the order bank has grown substantially.

Land and Development

Land and Development is expected to be steady on last year as the pipeline of development work increases and pre-lease enquiry levels improve, albeit from a very low base. Brickworks continues to work on opportunities to realise the maximum value from the land bank.

Investments

Returns from the investment in WHSP for the second half will be impacted by any interruptions to NHC and API earnings caused by the Queensland floods.

Brickworks Group

Brickworks is expected to deliver another solid result.

LINDSAY PARTRIDGE
MANAGING DIRECTOR