BRICKWORKS
LIMITED

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27 March 2014

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 2014, for immediate release to the market.

Yours faithfully,

BRICKWORKS LIMITED

IAIN THOMPSON

COMPANY SECRETARY

REVIEW OF RESULTS

1ST HALF ENDED JANUARY 2014

Released: 27th March 2014

BRICKWORKS LIMITED

REVIEW OF RESULTS JANUARY 2014

BUILDING PRODUCTS' MOMENTUM SIGNALS STRONG 2ND HALF

$ MILLIONS	Jan 13 6 mths	Jan 14 6 mths	Variance %
REVENUE			
Building Products	278.7	296.2	6.3
Land & Development	32.4	29.2	(9.7)
Other	0.2	0.1	(16.1)
Total Revenue	**311.3**	**325.6**	**4.6**
EBIT			
Building Products	14.0	19.2	36.7
Land & Development	37.3	36.1	(3.3)
Associates & Investments	28.8	23.7	(17.8)
Head Office & Other Expenses	(3.7)	(4.6)	(26.0)
Total EBIT (before significant items)	**76.5**	**74.3**	**(2.8)**
Total EBITDA (before significant items)	**89.3**	**87.0**	**(2.6)**
Interest Cost	(10.5)	(9.9)	(5.1)
Mark to market valuation of swaps	0.6	1.7	171.0
Tax Expense	(10.7)	(12.6)	18.1
Normalised NPAT	**56.0**	**53.4**	**(4.5)**
Significant items	0.1	2.9	>500
NPAT (including significant items)	**56.1**	**56.3**	**0.4**
Normal Earnings per share (cents)	37.9	36.1	(4.7)
Basic Earnings per share (cents)	38.0	38.1	0.3
Interim Ordinary Dividend (cents)	13.5	14.0	3.7
NTA/Share (vs. July 11)	$9.73	$10.04	3.2

BUILDING PRODUCTS' MOMENTUM SIGNALS STRONG 2ND HALF

Highlights[1]

- **Headline NPBT including significant items up 16.2% to $68.2 million**
- **Headline NPAT including significant items up 0.4% to $56.3 million**
- **Brickworks Normal NPAT before significant items down 4.5% to $53.4 million**
  - **Building Products EBIT up 36.7% to $19.2 million**
  - **Land and Development EBIT down 3.3% to $36.1 million**
  - **Investments EBIT down 17.8% to $23.7 million**
- **Net debt/capital employed of 15.2%, Net Debt of $313.9 million**
- **Interim dividend up 3.7% to 14.0 cents per share, fully franked**

Overview

Brickworks' (ASX: BKW) Headline Net Profit Before Tax ('**NPBT**') for the half year ended 31 January 2014 was $68.2 million, up 16.2% on the previous corresponding period, with the prior period being adversely impacted by $8.0 million in significant costs, before tax.

Headline Net Profit After Tax ('**NPAT**'), including significant items, was up 0.4% to $56.3 million. After excluding the impact of significant items, normal NPAT was $53.4 million, down 4.5% from $56.0 million for the previous corresponding period.

Building Products' earnings before interest and tax ('EBIT') was $19.2 million, up 36.7% on the previous corresponding period. Earnings across most divisions increased, through a combination of price increases and strategic initiatives undertaken over the past few years.

Land and Development EBIT was $36.1 million for the first half, driven primarily by the sale of "Rochedale North" for a profit of $16.1 million, and continued strong growth in the Joint Venture Industrial Property Trust[2] ('Property Trust').

Investment EBIT, including the contribution from Washington H Soul Pattinson ('WHSP'), was down 17.8% to $23.7 million due primarily to a reduction in earnings from New Hope Corporation.

Brickworks' continues to outperform the All Ordinaries Accumulation Index in terms of Total Shareholder Return ('**TSR**') over most time horizons. TSR for the year to 31 January 2014 was 15.7%, 5.0% higher than the index. Over 15 years, Brickworks has delivered returns of 14.1% per annum, 5.5% per annum above the index.

Normal earnings per share ('**EPS'**) were 36.1 cents, down 4.7% from 37.9 cents for the previous corresponding period.

Directors have declared a fully franked interim **dividend** of 14.0 cents per share for the half year ended 31 January 2014, up 3.7% on the previous corresponding period.

The record date for the interim dividend will be 15 April 2014, with payment on 6 May 2014.

[1] Unless otherwise stated all earnings measures exclude significant items
[2] The Joint Venture Industrial Property Trust is a 50/50% partnership between Brickworks and Goodman Industrial Trust

Financial Analysis

Gearing (debt to equity) decreased to 18.8% at 31 January 2014 from 19.7% at 31 July 2013. Total interest bearing debt decreased to $330.0 million and Net Debt was $313.9 million at 31 January 2014. Net debt to capital employed decreased to 15.2% for the half.

Interest costs were down slightly to $9.9 million for the half. **Total borrowing costs** were $8.2 million, including the gain in mark to market valuation of swaps of $1.7 million. Interest cover was 7.5 times, up slightly compared to 31 July 2013.

Working capital, excluding land held for resale and short term debt, was $166.1 million at 31 January 2014, a decrease of $7.6 million compared to 31 July 2013. During the half **finished goods inventory** reduced by $2.3 million.

Total net **cash flow** from operating activities was $53.8 million, up from $26.6 million in the previous corresponding period. This primarily reflects the rebalancing of production and sales, with the prior period being adversely impacted by an increase in finished goods inventory.

Dividends of $40.0 million were paid in the half year ended 31 January 2014, in line with the previous corresponding period.

Building Products **capital expenditure** increased to $17.7 million in the half ended 31 January 2014, up significantly from $9.5 million for the previous corresponding period. This excludes an additional $5.4 million in capital expenditure that was covered by insurance, associated with repair work following prior period fires.

Stay in business capital expenditure was $14.7 million, representing 115.9% of depreciation. This level of stay in business capital spend is higher than normal and includes a number of important projects. A range of alternative fuels projects are being implemented at Horsley Park in New South Wales in order to mitigate the impact of increasing gas prices. In addition a plant refit was undertaken at Bellevue in Western Australia, following more than 20 years of service. A new setting machine has commenced being installed at Rochedale in Queensland and will be completed during the second half.

Growth capital expenditure was $3.0 million, comprising the installation of an automated mesh welding machine at the Wetherill Park precast facility.

There were no **acquisitions** during the period.

The normalised **income tax** expense for the period increased to $12.6 million compared to $10.7 million for the previous corresponding period, due to the increased earnings from the combined Building Products and Land and Development Groups.

Net tangible assets per share was $10.04 at 31 January 2014, up from $9.73 at 31 July 2013. Total shareholders equity was up 2.1% for the half, to $1.755 billion.

Return on equity for the half was 6.4%, broadly in line with the prior corresponding period. Over the longer term, Brickworks diversified corporate structure has provided stability of earnings and enabled prudent investments that have steadily built net asset value and underpinned superior total shareholder returns.

Significant items increased NPAT by $2.9 million for the half year, due primarily to significant items relating to WHSP, offset by costs associated with the restructuring proposal by Perpetual / Carnegie.

Significant Items ($m)	**Gross**	**Tax**	**Net**
Costs relating to Perpetual / Carnegie proposal	(1.8)	0.6	(1.2)
Significant items relating to WHSP	4.3	0.1	4.4
Other Building Products significant items	(0.4)	0.1	(0.3)
TOTAL	**2.1**	**0.8**	**2.9**

Brickworks Building Products

Summary of Residential Commencements

Estimated Starts[3]	Detached Houses			Other Res			Total		
	Dec 12	Dec 13	Change	Dec 12	Dec 13	Change	Dec 12	Dec 13	Change
New South Wales[4]	10,385	10,871	4.7%	11,943	13,775	15.3%	22,328	24,646	10.4%
Queensland	9,918	9,604	-3.2%	5,061	6,944	37.2%	14,979	16,548	10.5%
Victoria	15,244	14,018	-8.0%	13,188	9,605	-27.2%	28,432	23,623	-16.9%
Western Australia	9,309	11,433	22.8%	2,705	2,666	-1.4%	12,014	14,099	17.4%
South Australia	3,358	3,861	15.0%	1,045	1,019	-2.5%	4,403	4,880	10.8%
Tasmania	794	753	-5.2%	193	110	-43.0%	987	863	-12.6%
Total Australia	**49,509**	**50,930**	**2.9%**	**34,926**	**34,729**	**-0.6%**	**84,435**	**85,659**	**1.4%**
New Zealand[5]	8,189	10,107	23.4%	1,000	1,599	59.9%	9,189	11,706	27.4%

Estimated commencements for **Australia** were up 1.4% to 85,659 for the six months ended 31 December 2013, from 84,435 in the previous corresponding period. The increase was driven by a rise in detached housing commencements, up 2.9% for the period, offset by a decline in other residential commencements of 0.6%. Despite the gradual improvement, detached house building activity remains below historical average levels.

Conditions in **New South Wales** (including ACT) continue to improve, with total residential commencements up 10.4% on the prior period. New South Wales (excluding ACT) now rivals Victoria as the largest housing market in the country. This is a significant shift compared to just three years ago when total commencements in New South Wales were around half of Victoria.

Since the cyclical low point around four years ago, virtually all the growth in New South Wales has been driven by "high rise"[6] apartments, with these developments increasing over 300% whilst other dwelling types have remained relatively flat. During the first half, high rise approvals represented 47.2% of total dwelling approvals, compared to just 15.3% four years ago.

Queensland also experienced strong growth in total commencements, up 10.5%, albeit from a low base, driven by very strong growth in other residential construction. Contrary to the national trend, detached house commencements were down 3.2% compared to the prior period.

Victoria continues to suffer a major decline in detached housing commencements, down a further 8.0% from the previous corresponding period. Other residential activity was also weak, down 27.2%, albeit from a historically high level in the prior period.

Detached housing activity in **Western Australia** is now at record highs following an increase of 22.8% on the prior corresponding period. The relatively small other residential segment was flat, consolidating the significant gains made in the prior period.

Momentum was maintained in **New Zealand,** with building consents for the six months ended 31 December 2013 increasing by 27.4% compared to the previous corresponding period.

[3] Original data sourced from ABSCat. 8752.0 Number of Dwelling Unit Commencements by Sector, States & Territories (Sep 12, Dec 12 and Sep 13 quarters). Dec 13 quarter estimate from BIS Shrapnel.
[4] Includes ACT, to align with Brickworks divisional regions
[5] Building Consents data sourced from Statistics New Zealand – Building Consents.
[6] 4 storey or greater apartment blocks, as per ABS approvals categorisation

The value of approvals in the **non residential** sector in Australia was up 21.7% to $19.164 billion for the six months to 31 December 2013, compared to the previous corresponding period. The **Commercial** building sector was up 47.7% to $8.522 billion for the period. **Industrial** building approvals decreased 10.4% to $2.604 billion. The **Educational** sub-sector was up 37.1% to $2.595 billion, reversing the declines in the previous corresponding period.

Building Products' Results in Detail

Half Year Ended January		**2013**	**2014**	**Change %**
Revenue	$mill	278.7	296.2	6.3
EBITDA	$mill	26.9	31.8	18.3
EBIT	$mill	14.0	19.2	36.7
Capital expenditure	$mill	9.5	23.1	143.1
EBITDA margin	%	9.6	10.7	11.5
EBIT margin	%	5.0	6.5	28.6
FTE employees (vs. Jul 13)		1,435	1,433	(0.1)
Safety (TRIFR)[7]		160.3	168.1	4.9
Safety (LTIFR)[8]		3.1	1.5	(50.6)

Revenue for the half year to 31 January 2014 was $296.2 million, up 6.3% from $278.7 million for the previous corresponding period.

EBIT was $19.2 million, up 36.7% on the prior corresponding period, and **EBITDA** was $31.8 million. Improved earnings were achieved on the back of restructuring initiatives implemented in prior periods, cost reduction initiatives and increased pricing in some divisions. All divisions other than Bristile Roofing achieved higher earnings, with this business having significant exposure to the declining detached housing market in Victoria.

Cost reduction initiatives delivered an estimated $4.3 million in savings compared to the prior corresponding period. These benefits arose from prior period restructuring, such as the consolidation of masonry operations in New South Wales to one site at Prospect, and a range of operational improvement and cost reduction projects that offset the increase in input costs, such as significantly higher energy prices.

The **EBIT margin** of 6.5% remains below acceptable levels, despite a significant increase compared to the prior period. It is important to note that this margin represents an average across all divisions, with the target varying by division. For example, the supply and install nature of the precast and roofing businesses have generally lower profit margins than bricks, however being less capital intensive, compensates with less funds employed.

Short term margins are being impacted by the presence of competitors in some businesses, who are operating unsustainable business models, not concerned with covering the cost of already employed capital and / or required future investments to maintain their operations.

[7] Total Reportable Injury Frequency Rate (TRIFR) measures the total number of reportable injuries per million hours worked
[8] Lost Time Injury Frequency Rate (LTIFR) measures the number of lost time injuries per million hours worked

Notwithstanding this issue, the significant increase in margin during the half demonstrates the high degree of operating leverage within the Building Products Group, given the relatively low increase in revenue.

The significant reduction in workforce over the past six years has slowed down during the first half, with production now stabilised and in balance with sales volume. Following the re-sizing of many production operations, productivity rates are much improved and it is unlikely that employee levels will need to be increased significantly if the market recovers.

Brickworks' ongoing commitment to providing a safe workplace has resulted in a substantial reduction in the Lost Time Injury Frequency Rate ('LTIFR') to 1.5 in the six months ended 31 January 2014, even though the Total Reportable Injury Frequency Rate ('TRIFR') increased slightly to 168.1.

Divisional Results

Austral Bricks™ delivered an increase in earnings for the six months ended 31 January 2014. Sales revenue was up 15.4% to $157.5 million, driven primarily by volume, up 13.9%. The increase in sales volume was due to three main factors: product "tolling" arrangements put in place in the 2nd half of 2013, strong growth in export demand to New Zealand and a recovery in demand in Western Australia.

Excluding the impact of tolling arrangements and export sales to New Zealand, significant price increases were achieved across all states, with the exception of Western Australia and Victoria. Improved production efficiency and cost reduction initiatives, such as the implementation of alternative fuels projects, also supported the increase in earnings for the division.

Finished goods stock levels were reduced across all major markets, with production volumes across most operations being maintained at previous levels despite the increase in sales volumes.

New South Wales earnings improved, primarily as a result of strong price increases and improved production efficiency. An increase in sales volume was driven by the supply of general purpose common bricks to Boral, with little volume increase attributable to the improved market conditions.

The previously mothballed 2nd kiln at Plant 3 recommenced production in December to meet the higher volume, following a significant reduction in inventory over the first 4 months of the period. It is anticipated that strong future demand will result in this kiln remaining in operation. An operations excellence program progressively implemented over two years is delivering good results with unit production costs well controlled, despite the impact of input cost increases.

A continued focus on developing premium products has resulted in securing brick supply to a number of prestigious projects, such as the Australian Embassy in Bangkok and the iconic Dr Chau Chuk building at the University of Technology Sydney. This building, designed by Frank Gehry, has utilised over 300,000 specially designed dry press bricks produced at Bowral.

The turn-around in **Queensland** continues, with a significantly improved result being achieved for the period, despite a decrease in local sales volume. The improvement has been driven by strong selling price increases and reduced overhead costs. In addition, production efficiency has benefited from an increase in demand from New Zealand Brick Distributors.

The sale of “Rochedale North”, a 23.5 hectare site adjacent to the brick factory that is surplus to operational requirements, was completed during the period. This sale has released significant land value and enhanced returns on invested capital at the Rochedale site.

Work is now well underway to consolidate the brick operations onto a smaller site and undertake a staged refit of the factory. These upgrades will reduce the cost of manufacture and further enhance margins to ensure the viability of this business over the long term.

Earnings from **Victoria** were down on the prior corresponding period, as further reductions in building activity resulted in a highly competitive market. Pricing was flat, due in part to an increase in the proportion of sales volume to lower priced major builders. A price rise to trade buyers and retail customers was implemented late in the half, with increases to major customers being progressively applied as agreements are renewed.

Despite the decrease in building activity, sales volume increased compared to the prior period. Following the impact of a fire in the previous period and the re-establishment of a full product range, market share is now increasing back to historical levels. Production volume was reduced in order to avoid an increase in finished goods stock, with production and sales back in balance by the end of the period.

For the first time since it commenced operation six years ago, the Wollert East kiln was shutdown over the Christmas period, with minor repairs being completed during this period. This kiln remains in “as new” condition.

Western Australia remains a difficult market, despite the significant increase in residential building activity. Sales volume increased in line with the uplift in detached housing commencements, however the average selling price was below the prior corresponding period resulting in relatively steady earnings. A significant reduction in inventory was achieved, with the rationalised plant footprint comprising Bellevue, Armadale and Malaga being maintained despite the significantly higher volume.

During the period the Bellevue plant was shut for an extended period to undertake a plant refit comprising the refurbishment of the kiln roof and burner plant, and upgrades to the setting machine and packaging plant. This refit, the first at Bellevue in around 20 years, will deliver a range of benefits such as increased output, reduced maintenance costs, lower gas consumption and improved product quality. Capital work was completed in March and the plant is now back in full production.

Planning work is underway to refit the Malaga plant to reduce costs and ensure margins are improved in this business over the long term. The work at Malaga will be staged over the next 2-3 years.

Earnings in **South Australia** were up significantly on the prior period, due largely to an increase in selling price, on steady local sales volume. Strong cost controls resulted in unit manufacturing costs decreasing, despite production volume being marginally below the prior year.

Tasmania delivered increased earnings, despite the deteriorating market conditions in that state. Both sales volume and average selling prices increased on the prior corresponding period. Austral Bricks is now the only remaining locally based manufacturer.

A strong performance from **New Zealand Brick Distributors** resulted in an increase in contribution from New Zealand operations. This business continues to benefit from a resurgence in residential building activity in New Zealand and improved margins.

Austral Masonry™ delivered a significant increase in earnings, up 91.1% compared to the previous corresponding period and is now the second most profitable division within the Building Products Group. Sales revenue was up 40.8% to $39.1 million. This outstanding result was achieved on the back of both external rationalisation and internal restructuring initiatives.

External rationalisation activities included the benefits associated with prior period acquisitions, including an expanded product range and an increase in sales volume of 32.7%. In addition, product "tolling" arrangements have delivered benefits in Cairns and Victoria. In Cairns, Austral Masonry is now the only significant masonry manufacturer, and has supply agreements for commodity grey block in place with other distributors in this region. In Victoria, Austral Masonry now source grey block from Adelaide Brighton, allowing the closure of the inefficient Dandenong plant.

A number of internal restructuring initiatives were also implemented. These included significant overhead cost reductions across many operations and the consolidation of operations in New South Wales to the Prospect site. Strong average selling price increases were also achieved, up 10.3% excluding the impact of tolling.

Bristile Roofing™ earnings decreased compared to the prior corresponding period, with sales volume down 11.3% and pricing relatively steady. Sales revenue was down 12.1% to $48.0 million for the half. On the East Coast earnings were flat, with improvements in New South Wales and Queensland being offset by declines in Victoria.

The contribution from Western Australia was lower, with the previous period benefitting from a major commercial project. The upturn in detached house commencements in this state is yet to translate to increased sales volumes, with a significant lag being experienced between a recorded "commencement" and the installation of roof tiles on site.

Austral Precast™ earnings increased, despite a 4.3% reduction in sales revenue to $31.9 million. A restructure was undertaken during the period to extract synergies from the sales and administration functions across the country. Improved earnings in New South Wales, Queensland and Western Australia were offset by a decline in Victoria.

A number of new products were launched during the period, aimed at offering a "whole of structure" building solution. These products included Austral Deck, a proprietary flooring system, and "PermaTech", a range of panels that feature various applied finishes.

A range of cost reduction initiatives are underway. A mobile crane was acquired in December to install panels in the Sydney region at lower cost, and a steel mesh plant is currently being installed at the Wetherill Park plant to automate the fabrication of steel reinforcement.

Auswest Timbers™ earnings increased on the prior corresponding period, with sales revenue up 4.3% to $21.8 million. There was a strong uplift in domestic activity in the latter stages of the period, particularly for joinery and furniture components from Western Australia. Export volume is also increasing, with particularly strong demand from China for furniture grade material. The uplift in export demand was partially offset by the impact of decreasing woodchip prices.

Operations in Western Australia are now back to normal, following the recommissioning of the Deanmill plant in July 2013, following an extensive rebuild of the facility after it was damaged by fire in August 2012.

A significant rationalisation of the Western Australian hardwood market in underway. Following the exit of Whittakers, a key competitor, Auswest Timbers' competitive position is much improved, and it now controls the vast majority of available Jarrah, Karri and Marri species.

The Orbost operation in Victoria has log supply licenses in place until 2017, with longer term supply currently being negotiated with VicForests. If a satisfactory outcome from these negotiations can be achieved, it will likely underpin plant upgrade works at the Victorian facilities, with current sales volumes constrained by production capacity.

Land and Development

Land and Development produced an EBIT of $36.1 million for the half year ended 31 January 2014, down 3.3% from $37.3 million for the previous corresponding period.

Property Sales contributed an EBIT of $20.4 million for the half year, down marginally from $23.4 million in the prior half. The main transaction for the period was the sale of the "Rochedale North" site in Brisbane, valued at $25.9 million, into the Property Trust. The 23.5 hectare site, located at the northern end of Gardner Road in Rochedale, will be developed into an industrial estate with over 125,000m^2 of gross lettable area. Other property sales included former quarries at Rhonda, in Queensland, sold for $2.0 million and Buninyong in Victoria, sold for $0.8 million.

The **Property Trust** generated an EBIT of $17.1 million, up 14.0% from $15.0 million in the previous corresponding period.

Net property income distributed from the Property Trust was $6.1 million for the half, up from $5.1 million in the half year ended 31 January 2013.

The revaluation profit of stabilised Property Trust assets totalled $7.9 million, up significantly from $3.8 million in the previous corresponding period, due to a reduction in capitalisation rates in the last quarter of 2013.

An EBIT of $2.1 million was contributed through a revaluation on the completion of the DHL Canon development on the Oakdale Central Estate. In addition, a development profit of $1.0 million was achieved as a result of the sale of the Toll development and fees on other Property Trust developments. This sale provided $11.9 million in cash to Brickworks.

The total value of the Property Trust assets as at 31 January 2014 was $913.8 million, including borrowings of $343.5 million, giving a total net asset value of $570.3 million. Brickworks share of the Property Trust's net asset value was $285.1 million, up $26.2 million from $258.9 million at 31 July 2013. The increase in value was primarily due to the sale of Rochedale North into the Property Trust, in addition to the completion of the DHL Canon facility and revaluations of other properties. This was partially offset by the sale of the expanded Toll facility.

During the half construction continued on two new Property Trust developments, including the expansion of the existing Coles cold store facility on the M7 Estate, and the fourth DHL facility on Oakdale Central. Both of these facilities are due for completion in July 2014.

The royalty free period at the Horsley Park Landfill ended in December 2013, enabling contributions to re-commence in January. **Waste Management** contributed a profit of $0.1 million for this period.

Property Group administration expenses totalled $1.5 million for the half year to 31 January 2014, in line with the prior corresponding period. These expenses include holding costs such as rates and taxes on properties awaiting development.

Investments

The EBIT from total investments was down 17.8% to $23.7 million in the half year ended 31 January 2014.

Washington H. Soul Pattinson Limited ('WHSP')

ASX Code: SOL

Brickworks' investment in WHSP returned a normalised contribution of $23.6 million for the half year ended 31 January 2014, down 17.8% from $28.7 million in the previous corresponding period, due primarily to the impact of reduced earnings from New Hope Corporation Limited ('NHC').

The market value of Brickworks 42.72% share holding in WHSP was $1.543 billion, up 11.8% or $163.0 million, from $1.380 billion at 31 July 2013. This investment continues to provide diversity and stability to earnings, with cash dividends totalling $28.6 million received during the half, up 3.6% on the prior period.

WHSP has delivered outstanding returns over the short, medium and long term, outperforming the ASX All Ordinaries Accumulation Index by 2.6% p.a. over five years, 4.0% p.a. over ten years and 6.6% p.a. over fifteen years.

WHSP holds a significant investment portfolio in a number of listed companies including Brickworks, New Hope Corporation, TPG Telecom Limited, API, Clover, Ruralco Holdings and Copper Chem Limited.

The investment in WHSP has been an important contributor to Brickworks' success for more than four decades. Over this period it has delivered an uninterrupted dividend stream that reflects the earnings from WHSP's diversified investments. This dividend helps to balance the cyclical earnings from Brickworks' Building Products and Land divisions.

Perpetual / M.H. Carnegie Proposal

A general meeting to consider Perpetual and Carnegie's proposals is currently scheduled for 5 May 2014. The meeting has been postponed on several occasions due to the unavailability of information, in particular an ATO ruling on the tax consequences of the proposal, that Brickworks Independent Directors consider vitally important to enable shareholders to properly evaluate and consider the resolutions.

The proposal from Perpetual and Carnegie has caused Brickworks to incur $1.8 million in costs during the six months to 31 January 2014. Of greater concern is the major distraction to management and staff, the full impact of which is difficult to quantify.

Outlook

Building Products

The current upturn in **housing activity** has been relatively slow to translate into increased building materials demand, with the notable exception of brick sales in Western Australia. However we are now experiencing a more broad based recovery in demand, with Austral Bricks sales volumes in March tracking more than 30% ahead of the prior year, building on momentum from February. If demand continues to build and stock holdings fall to unsustainable levels, Brickworks is well placed, with the flexibility to bring on kilns currently mothballed such as Plant 2 at Horsley Park and the second kilns at Rochedale and Golden Grove.

However the Building Products Group remains committed to increasing profit, as opposed to market share. **Price rises** have been implemented by a number of divisions in the first half, with the full impact of these increases yet to be realised. Over the remainder of the year, all divisions will continue to implement price rises as and when necessary to ensure margins and returns reach acceptable levels.

Brickworks is optimistic that changes in **government policy**, including the abolition of the carbon tax, will decrease the cost burden on Australian business. Of particular importance is a more balanced industrial relations system that facilitates flexibility and direct employee engagement. It is also essential that Australia's vast gas reserves are made available to local manufacturers at commercially viable prices, and a streamlined approvals process is implemented for utilisation of green, synthetic or alternative fuels.

Despite the lengthy and complicated approvals process, Brickworks is making good progress on a range of alternative fuels projects to offset the impact of **gas cost** increases over the coming years. For example, a significant portion of gas consumption at Plant 1 at Horsley Park in Sydney is now sourced from landfill gas. In addition Austral Bricks has signed an agreement with Strike Energy that provides an option for the supply of 12.5PJ of gas by Strike, should it become available, at a fixed price over a 10 year term from 2017.

If sales momentum is sustained, the Building Products Group is well placed to deliver significantly higher earnings in the second half, compared to the previous corresponding period. Final quarter earnings will also benefit from the completion of major capital projects such as the refit of the Bellevue brick plant in Western Australia and the automated mesh welding machine at the Wetherill Park precast facility in New South Wales.

In the medium term, industry rationalisation and internal restructuring completed in recent years, together with forecast improvements in detached house building activity will provide additional impetus to Building Products earnings.

Land and Development

A number of developments within the Property Trust will continue to deliver increased earnings over the medium term. The completion during the first half of the DHL Canon facility on the Oakdale Central Estate provides a further 20,170m^2 to the developed assets at this site. Also on Oakdale Central, construction is well underway on the fourth DHL facility, consisting of 31,745m^2, and this development is expected to be completed in July 2014.

The 12,420m^2 expansion of the existing Coles Cold Store facility at M7 Business Hub is also due for completion in July 2014. This extension will bring the total area to 55,490m^2 making it the largest and most valuable asset in the portfolio.

New pre-commitment enquiry has slowed in the last quarter of 2013. However the Trust is well placed to secure additional developments, particularly at Oakdale Central and South with these areas benefitting from the pending upgrade of Old Wallgrove Road, Eastern Creek.

The sale of Rochedale North into the Trust will facilitate the development of infrastructure and services for the site and will release 23.5 hectares of developable land to the Brisbane market. The site's close proximity to Brisbane's airport and sea freight terminals makes it attractive as a key new industrial area. Initial enquiry into the property has been strong, with the site already shortlisted for review by two potential tenants.

Investments

The diversified nature of Washington H. Soul Pattinson's investments is expected to deliver increasing earnings to Brickworks over the long term.

Brickworks Group

Building Products earnings for the full year are expected to comfortably exceed the prior year. Continued growth of the Property Trust and the significant land sale reported in the first half will likely result in a marginally higher contribution over the full year. Investment earnings are difficult to predict in the short term.

The diversified nature of Brickworks earnings is likely to result in a solid performance for the 2014 financial year.

LINDSAY PARTRIDGE
MANAGING DIRECTOR