Brickworks Limited
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21 March 2013

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 2013, for immediate release to the market.

Yours faithfully,

BRICKWORKS LIMITED

IAIN THOMPSON

COMPANY SECRETARY

BRICKWORKS

LIMITED

REVIEW OF RESULTS

JANUARY 2013

BRICKWORKS LIMITED

REVIEW OF RESULTS JANUARY 2013

DIVERSIFIED BUSINESS MODEL DELIVERS 13% LIFT IN PROFIT DESPITE TOUGH BUILDING PRODUCTS MARKET & REDUCED INVESTMENT EARNINGS

$ MILLIONS	Jan 12 6 mths	Jan 13 6 mths	Variance %
REVENUE			
Building Products	268.2	278.7	3.9
Property & Waste	2.5	32.4	>1,000
Other	0.7	0.2	(75.9)
Total Revenue	**271.4**	**311.3**	**14.7**
EBIT			
Building Products	14.4	14.0	(2.8)
Property & Waste	13.3	37.3	180.4
Associates & Investments	41.7	28.8	(30.9)
Head Office & Other Expenses	(3.5)	(3.7)	3.6
Total EBIT (before significant items)	**65.9**	**76.5**	**16.0**
Total EBITDA (before significant items)	**78.2**	**89.3**	**14.2**
Interest Cost	(10.8)	(10.5)	(2.8)
Mark to market valuation of swaps	(2.8)	0.6	(121.8)
Tax Expense	(2.9)	(10.7)	273.4
Normalised NPAT	**49.5**	**56.0**	**13.1**
Significant items	4.6	0.1	(97.2)
NPAT (including significant items)	**54.1**	**56.1**	**3.7**
Normal Earnings per share (cents)	33.5	37.9	12.9
Basic Earnings per share (cents)	36.7	38.0	3.5
Interim Ordinary Dividend (cents)	13.5	13.5	0.0
NTA/Share (vs. July 11)	$9.48	$9.73	2.6

DIVERSIFIED BUSINESS MODEL DELIVERS 13% LIFT IN PROFIT DESPITE TOUGH BUILDING PRODUCTS MARKET & REDUCED INVESTMENT EARNINGS

Highlights[1]

- Brickworks Normal NPAT before significant items up 13.1% to $56.0 million
  - Building Products EBIT down 2.8% to $14.0 million
  - Land and Development EBIT up 180.4% to $37.3 million
  - Investments EBIT down 30.9% to $28.8 million
- Headline NPAT including significant items up 3.7% to $56.1 million
- Net debt/capital employed of 15.1%, Net Debt of $303.8 million
- Interim dividend steady at 13.5 cents per share, fully franked

Overview

Brickworks (ASX: BKW) **Normal** Net Profit After Tax ('NPAT') for the half year ended 31 January 2013 was $56.0 million, up 13.1% from $49.5 million for the previous corresponding period. Including significant items Brickworks' **Headline** NPAT was up 3.7% to $56.1 million.

Building Products earnings before interest and tax ('EBIT') was $14.0 million, down 2.8% on the previous corresponding period. A strong uplift in earnings from Austral Bricks and Bristile Roofing was offset by declines in Austral Precast and Auswest Timbers.

Land and Development EBIT was up 180.4% to $37.3 million for the first half, driven primarily by the sale of "Oakdale South" into the JV Property Trust for a profit of $23.4 million.

Investment EBIT, including the contribution from Washington H Soul Pattinson ('WHSP'), was down 30.9% to $28.8 million due primarily to the impact of reduced earnings from New Hope Corporation Limited.

Significant items contributed an additional $0.1 million profit.

Normal earnings per share ('**EPS'**) were 37.9 cents, up 12.9% from 33.5 cents for the previous corresponding period.

Directors have declared a fully franked interim **dividend** of 13.5 cents per share for the half year ended 31 January 2013, in line with the previous corresponding period.

The record date for the interim dividend will be 16 April 2013, with payment on 7 May 2013.

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[1] Unless otherwise stated all earnings measures exclude significant items

Financial Analysis

Gearing (debt to equity) increased to 18.4% at 31 January 2013 from 18.0% at 31 July 2012. Total interest bearing debt ('TIBD') increased to $315 million and Net Debt was $303.8 million at 31 January 2013. Net debt to capital employed rose slightly to 15.1% for the half.

Interest costs were down slightly to $10.5 million for the half. **Total borrowing costs** were $9.9 million, including the gain in mark to market valuation of swaps of $0.6 million. Interest cover increased to 6.4 times from 4.9 times in the previous corresponding period.

Working capital, excluding land held for resale, at 31 January 2013 was $169.3 million, an increase of $8.5 million during the first half, as a result of an increase in **total inventory,** up by $10.8 million. During the half **finished goods inventory** was up by $9.0 million, as a result of brick stock unit cost increases due primarily to the rising cost of energy, including the carbon tax.

Total net **cash flow** from operating activities was $26.6 million, down from $38.0 million in the previous corresponding period, reflecting the increase in working capital.

Dividends of $39.9 million were paid in the half year ended 31 January 2013, in line with the previous corresponding period.

Capital Expenditure decreased to $9.7 million in the half ended 31 January 2013, down significantly from $16.1 million for the previous corresponding period. Stay in business capital expenditure was $8.1 million, representing 63.1% of depreciation. Growth capital expenditure was $1.4 million, including final building work on the new batching plant for the Wetherill Park precast facility in New South Wales.

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

Net Tangible Assets per share was $9.73 at 31 January 2013, up from $9.48 at 31 July 2012. Total Shareholders Equity was up 2.7% for the half, to $1.708 billion.

The normalised **income tax** expense for the period has increased to $10.7 million compared to $2.9 million for the previous corresponding period, due to the increased earnings from the combined Building Products and Land and Development Groups.

Significant items increased NPAT by $0.1 million for the full year. Restructuring costs included the closure of the Caversham terracotta roof tile plant in Western Australia. Together with the previous closure of the Cardup brick plant, this has resulted in a cost of $2.8 million before tax associated with a non commercial gas contract in Western Australia. Restructuring costs also include the consolidation of precast operations to one site in both New South Wales and Queensland. During the period there was a tax adjustment of $5.7 million to the carrying value of the investment in WHSP.

Significant Items ($m)	**Gross**	**Tax**	**Net**
Restructuring costs	(6.9)	2.1	(4.8)
Tax adjustment to the carrying value of WHSP		5.7	5.7
Other significant items	(1.1)	0.3	(0.8)
TOTAL	**(8.0)**	**8.1**	**0.1**

Brickworks Building Products

Market conditions

Estimated Starts[2]	6 Mths to Dec 11	6 Mths to Dec 12			Variance % (Compared to prior period)		
	Total	Detached	Other Res	Total	Detached	Other Res	Total
New South Wales[3]	18,897	9,906	9,632	19,538	7.6%	(0.6%)	3.4%
Queensland	13,790	9,519	4,107	13,626	12.0%	(22.3%)	(1.2%)
Victoria	26,497	14,687	11,537	26,224	(14.6%)	24.1%	(1.0%)
Western Australia	9,496	8,295	2,211	10,506	4.3%	43.5%	10.6%
South Australia	4,844	3,019	780	3,799	(14.9%)	(39.8%)	(21.6%)
Tasmania	1,196	781	231	1,012	(14.5%)	(18.4%)	(15.4%)
Total Australia	**75,324**	**46,655**	**28,913**	**75,568**	**(2.2%)**	**4.7%**	**0.3%**
New Zealand (Consents)[4]	7,707	8,189	1,000	9,189	18.8%	22.7%	19.2%

Estimated commencements for **Australia** were up 0.3% to 75,568, for the six months ended 31 December 2012, from 75,324 in the previous corresponding period. The increase was driven by a rise in other residential commencements, up 4.7% for the period, offset by continued weakness in detached houses, down 2.2%.

Despite an improvement in detached house activity compared to the 6 months ended June 30 2012, activity in this segment remains close to historical lows.

Conditions in **New South Wales** have improved after many years of depressed residential building activity. Contrary to the national trend, detached house commencements were the key driver of increased activity, up 7.6% compared to the prior corresponding period.

Similarly **Queensland** saw strong growth in detached housing commencements, albeit from historical lows, up 12.0% for the six months ended December 31 2013. Declines in the other residential segment offset this growth to deliver a small decline in total estimated commencements.

Victoria continues to suffer a major decline in detached housing commencements, down a further 14.6% from the previous corresponding period. However other residential activity was very strong, broadly offsetting the weakness in detached housing.

Detached housing activity in **Western Australia** has rebounded from a ten year low, increasing 4.3% compared to the prior corresponding period. The relatively small other residential segment exhibited very strong growth to deliver a total increase in commencements of 10.6%.

New Zealand building consents for the six months ended 31 December 2012 increased by 19.2% compared to the previous corresponding period, with significant momentum building following years of below average building activity.

[2] Original data sourced from ABS Cat. 8750.0 Dwelling unit Commencements, Australia. December 12 quarter estimate from BIS Shrapnel.
[3] Including ACT
[4] Building Consents data sourced from Statistics New Zealand – Building Consents, December 2012.

The value of approvals in the **non residential** sector in Australia was down 8.9% to $14.309 billion for the six months to 31 December 2012, compared to the previous corresponding period. The **Commercial** building sector was relatively flat, with building approvals up 0.5% to $5.293 billion for the period. **Industrial** building approvals increased 45.8% to $2.852 billion. The **Educational** sub-sector was down 37.0% to $1.712 billion, impacting brick sales and to a lesser extent Masonry and Precast.

Building Products' Results in Detail

Half Year Ended January		**2012**	**2013**	**Change %**
Revenue	$mill	268.2	278.7	3.9
EBITDA	$mill	26.7	26.9	0.6
EBIT	$mill	14.4	14.0	(2.8)
Capital Expenditure	$mill	15.6	9.5	(39.1)
EBITDA margin	%	10.0	9.6	(0.3)
EBIT margin	%	5.4	5.0	(0.3)
Employees (vs. July 12)		1,410	1,361	(3.5)
Safety (TRIFR)[5]		183.4	160.3	(12.6)
Safety (LTIFR)[6]		3.1	3.1	0.0

Revenue for the half year to 31 January 2013 was $278.7 million, up 3.9% from $268.2 million for the previous corresponding period.

EBIT was $14.0 million, down 2.8% on the prior year. Improved earnings were achieved in the Austral Bricks and Bristile Roofing divisions, with good pricing outcomes delivering improved margins, despite lower volumes and continued input cost pressures. The significant progress made in these divisions was offset by declines in Auswest Timbers and Austral Precast, with both of these operations experiencing significant disruptions during the half.

Total employee numbers have reduced by 49 since 31 July 2012, reflecting the ongoing rationalisation of manufacturing operations, including the closure of the roof tile plant at Caversham in Western Australia and consolidation of precast operations in New South Wales and Queensland.

This continuous production rationalisation and cost reduction program has been a feature of Brickworks' management philosophy over many years with the company being pro-active in resizing the business to seek maximum productivity in all market conditions. In total the workforce has been reduced by 26% since 31 July 2007, after including the impact of employees added through acquisitions. Over the same period Building Products revenue has increased by 7.9% and productivity improvements have resulted in revenue per employee increasing by 17.1% to $412,958, on an annualised basis.

Productivity improvements delivered an estimated $7.6 million in cost reductions in the first half, compared to the previous corresponding period. However these savings were offset by the impact of input cost increases. For example, the first half result incorporates an increase of $4.7 million in energy costs, including the carbon tax.

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

The Total Reportable Injury Frequency Rate ('TRIFR') decreased to 160.3 from 183.4 for the prior period. There were four Lost Time Injuries ('LTIs') during the six months to 31 January 2013, in line with the previous corresponding period.

Divisional Results

Despite the continued weakness in market activity, resulting in a 6.3% decrease in volumes, **Austral Bricks™** earnings were up 54.1% on the prior corresponding period, primarily as a result of a 7.7% increase in prices. Overall sales revenue for the six months ended 31 January 2013 was up 2.6% to $144.5 million.

Finished goods stock levels were well controlled with total brick volume stable for the half, excluding the impact of Victoria, where stock replenishment was required following the transition of all production to the Wollert plant.

Gas Supply
Gas supply remains a serious concern for Brickworks, with the ability to secure competitive supply contracts at the expiry of current contracts, in December 2014 on the East Coast and June 2014 on the West Coast, still uncertain. Although recent publicity has resulted in offers of gas supply emerging, pricing is significantly higher than current rates, already up by 100% over the past five years.

To reduce the impact of rising gas costs, Brickworks is working urgently on projects to transition from natural gas to alternative fuels. A number of these projects will be implemented within the next 18 months, and the benefits are expected to largely mitigate the impact of gas cost increases.

New South Wales earnings were considerably higher as a result of strong price increases being achieved over the past six months. A matching of production capacity to meet market demand, completed in the prior year, increased plant efficiency and helped to reduce the impact of input cost increases. A continued focus on developing fashionable and market leading products resulted in further take up of face-brick by home builders, and resulted in enhanced margins. The retail presence was further expanded with the opening of an innovative Sales and Design Centre in Beresfield, to service the high growth Newcastle and Hunter region.

The gradual transition away from detached housing to medium and high density remains a concern. In the 2012 calendar year, 46% of residential approvals in New South Wales were for detached houses, compared with over 60% twenty years ago.

Queensland reported a much improved result for the period and is now back to a break-even. The consolidation of plant operations to one site at Rochedale, completed in January 2012, resulted in significantly reduced unit manufacturing costs. Further work to improve margins is necessary to ensure the viability of this business over the long term. Part of the strategy to improve returns in Queensland is to sell surplus land around the Rochedale site. During the period, this land was rezoned Industrial and subdivision work is now underway.

A strong focus on increasing sales of higher margin face brick products was supported by the release of new products such as the "Reveal", "Luxe" and "Mettallix Gen 2" ranges. In addition to the local Queensland market, the Rochedale factory also supplies the New Zealand market, currently experiencing a significant uplift in demand.

Earnings from **Victoria** were down on the prior corresponding period, as reduced levels of detached house commencements resulted in a decline in sales volume. Strong price increases were unable to fully offset the impact of the lower volumes. Production costs were adversely impacted during the half following a fire in the new clay mill at Wollert on 15 August. This resulted in a temporary slow down of production as clay grinding was shifted to the lower capacity old mill, causing a reduction in output. A round the clock effort by the Major Projects team to completely rebuild the new mill limited this slowdown to just one month.

Pressed brick manufacture re-commenced during the period, with a positive market response to the relaunched Nubrik range. Following commissioning of the new Wollert plant, appropriate stock levels have now been balanced with demand, completing the final phase of the transition of the business to the new single site. The new plant is now operating in excess of 90% of design capacity, positioning this business to deliver strong profit growth in future years.

Western Australia remains a difficult market, with strong competition and low levels of detached house building activity. A marginally improved result was delivered, primarily as a result of restructuring activities completed in the prior year. The rationalised plant footprint comprising Bellevue, Armadale and Malaga delivered lower unit manufacturing costs, despite increases in input costs.

The strong competition in this market again limited the ability of the business to achieve target price rises. Improved activity in the later months of the half was encouraging, although the availability of titled residential land remains a concern.

Earnings in **South Australia** were down on the prior period, with lower volumes in line with market activity. Price increases were unable to fully offset the impact of reduced volumes on manufacturing costs.

Tasmania delivered increased earnings, despite the deteriorating market conditions in that state. Although market share was increased following the exit of K&D Bricks from the Tasmanian market, the full benefit of their exit is yet to be realised as they continue to sell-down existing stock. Austral Bricks is now the only remaining locally based manufacturer.

New Zealand delivered a substantially improved result, driven by a strong uplift in volume as market activity continued to increase. During the half the New Zealand Commerce Commission approved a Joint Venture between Brickworks and CSR for the distribution of bricks in New Zealand. This Joint Venture is expected to commence trading in the second half.

Bristile Roofing™ earnings were up by 73.1% on the prior corresponding period, despite a decrease in volumes. Sales revenue was up 7.2% to $54.3 million as a result of improved pricing. Margins were also assisted by strong manufacturing cost controls.

On the East Coast, earnings improvements in New South Wales and Queensland more than offset declines in Victoria. Sales of imported La Escandella terracotta products continue to gather momentum, supplementing the locally manufactured concrete roof tile range in these states.

Earnings in Western Australian were significantly improved compared to the prior period. Production at the Caversham plant ceased in November and the transition to an import business model is underway, with locally manufactured stock currently being phased out. This lower fixed cost business model will enable supply to be easily and cost-effectively adjusted to meet demand across the building cycle.

Austral Masonry™ earnings and volumes were relatively flat, with strong increases in New South Wales and North Queensland offset by decreases in South East Queensland and Victoria.

Sales revenue was up 5.9% to $27.8 million for the half, primarily as a result of price increases, up 6.5%.

The competitive landscape in the masonry industry has changed significantly over the past five years. The acquisition of a number of independents by Austral Masonry, together with the exit of Boral on the East Coast has resulted in a more rationalised industry structure. Strong competitive positions are now established in most major East Coast markets and the Austral Masonry business is now well placed to deliver increased earnings.

Austral Precast™ sales revenue was up 5.8% to $33.4 million, however earnings were down on the previous corresponding period, primarily due to increased manufacturing costs. New South Wales operations were disrupted by flooding at the Wetherill Park facility, due to a faulty water main valve at the adjacent Prospect Reservoir. In addition, delays in the commissioning process of the new batching plant adversely impacted performance. This batching plant is now in full production, allowing increased operating hours of the Wetherill park facility. As a result, this has enabled the operations in New South Wales to be consolidated to one site with the closure of the Prestons site during the half.

Performance in Queensland was much improved. Following the acquisition of an independent in March 2012, operations were consolidated to the new site at Salisbury in August, resulting in increased scale and improved manufacturing efficiencies. The Victorian business was disrupted during the period by a number of significant project related delays.

A restructure is underway in Austral Precast to extract synergies from the sales and administration functions across the East Coast.

The Western Australian result was impacted by difficulties encountered on a major job in the far north of the state. This project has highlighted the challenges associated with doing business in remote areas, and additional controls and processes are now in place to prevent any re-occurrences.

Auswest Timbers™ sales revenue was up 16.6% to $33.4 million for the half, primarily as a result of the inclusion of the acquired operations in Western Australia for the full period. However earnings were adversely impacted by a fire at the Deanmill facility in August, resulting in this site being down for the entire first half. This disruption had a significant impact on operations in Western Australia, with limited production being transferred to Pemberton. The Deanmill operation is expected to re-commence in April.

A long term log license is in place in Western Australia, placing operations in that state in a secure position. However uncertainty remains over log supply for the Orbost mill in Victoria, with a final decision from VicForests on future supply arrangements in that state yet to be announced.

Land and Development

Land and Development produced an EBIT of $37.3 million for the half year ended 31 January 2013, up 180.4% from $13.3 million for the previous corresponding period.

The primary reason for the improved result was an increase in **Property Sales,** contributing an EBIT of $23.4 million for the half year against the prior half when no sales occurred. The only transaction for the period was the sale of the second stage of Oakdale ("Oakdale South") into the joint Venture Property Trust. The property, located at Eastern Creek in New South Wales will provide around 62 hectares of additional land.

The **Property Trust** generated an EBIT of $15.0 million, up 17.2% from $12.8 million in the previous corresponding period.

Net property income distributed from the Trust was $5.1 million for the half, up from $3.7million in the half year ended 31 January 2012.

The revaluation profit of stabilised Trust assets totalled $3.8 million, in line with the prior period due to flat capitalisation rates and moderate income growth.

An EBIT of $6.1 million was contributed through fair value adjustments on completion of developments at the Reedy Unit Estate at M7 Business Hub and the Jeminex Unit Estate at Erskine Industrial Estate.

The total value of the Property Trust assets as at 31 January 2013 was $837.3 million, with borrowings of $332.5 million, giving a total net value of $504.8 million. Brickworks share of the Trust's net asset value was $252.4 million up $67.9 million from $184.5 million at 31 July 2012. The increase in value was driven by the sale of Oakdale South into the Property Trust.

During the half construction commenced on two new Trust developments including the expansion of the existing Toll facility on the M7 Business Hub and the third DHL facility at Oakdale Central. These projects are due for completion in the second half of 2013.

Waste Management contributed a profit of $0.4 million for the half, down from $2.5 million in the prior corresponding period, due to the commencement of a royalty free period for the Horsley Park Landfill, which is expected to continue until early 2014.

Property administration **expenses** totalled $1.6 million for the half year to 31 January 2013, which was higher than the prior corresponding period, due to increased land tax on development properties including the remainder of Oakdale Estate in New South Wales and Craigieburn in Victoria.

Investments

The EBIT from total investments was down 30.9% to $28.8 million in the half year ended 31 January 2013.

Washington H. Soul Pattinson Limited ('WHSP')

ASX Code: SOL

Brickworks' investment in WHSP returned a normalised contribution of $28.7 million for the half year ended 31 January 2013, down 30.0% from $41.0 million in the previous corresponding period, due primarily to the impact of reduced earnings from New Hope Corporation Limited ('NHC').

Despite an ongoing downturn in global coal markets, NHC's focus on productivity and cost management resulted in a profit before tax of $93.2 million for the first half, 8.4% down on the prior corresponding period. However net profit after tax was down 31.9% due to a one off tax benefit in the prior half year that adversely offset income tax expense from recurring operations.

The market value of Brickworks 42.72% share holding in WHSP was $1.401 billion, up 4.2% or $56.0 million, from $1.345 billion at 31 July 2012. This investment continues to provide diversity and stability to earnings, with cash dividends totalling $27.6 million received during the half, up 7.8% on the prior period.

WHSP has delivered outstanding returns over the short, medium and long term, outperforming the ASX All Ordinaries Accumulation Index by 14.4% p.a. over five years, 4.2% p.a. over ten years and 5.7% 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 a dividend stream that reflects the earnings from WHSP's diversified investments. This dividend helps to balance the cyclical earnings from Brickworks own Building Products and Land businesses.

Structural Review

During the period, an Independent Committee of the Board completed a review of the corporate structure and, in particular, the investment that Brickworks has in WHSP. Independent advice was received from expert advisers in the areas of taxation, law and finance.

The review considered all realistic restructure options within the control of Brickworks, and included alternatives proposed by Brickworks' second largest shareholder, Perpetual. Some of the structures that were considered included:

- Distribution of shares in WHSP to Brickworks shareholders
- Buyback of shares held in each other by WHSP and Brickworks
- Corporate restructures between Brickworks and WHSP
- Various combinations of the above

The independent review considered whether any restructure could create additional value for all Brickworks shareholders compared with the current structure.

The findings of the independent review were clear; no restructure within Brickworks' control would unequivocally improve value for shareholders. In fact, many of the restructure alternatives would actually reduce value for Brickworks and its shareholders. This includes crystallising unrealised taxes that will unlikely be payable for so long as the current structure is maintained.

The full Brickworks Board unanimously endorsed the findings and conclusions reached by the Independent Committee.

In recent months, following presentation of the findings of the structural review to the 2012 Annual General Meeting, media coverage of proposals relating to the Brickworks corporate structure has continued. The Board has reviewed each of these more recent restructuring proposals.

None of these new proposals change the Board's confidence in our existing structure. The Board believes that these new external proposals are fundamentally flawed as they:

- Are theoretical estimates only without any guarantee of practical success
- Are based on inconsistent and unverifiable analysis
- Overstate the purported benefits of a restructure
- Overlook material taxation consequences of a restructure

In completing the structural review and reviewing restructuring proposals, the Board has been focused on maximising the interests of all Brickworks shareholders. The Board is not prepared to compromise Brickworks' long-term strategy for value creation in order to address the short-term objectives of a small number of shareholders.

In the future, Brickworks will continue to consider the full range of alternatives for the company's portfolio. This will be a component of the annual strategic planning process together with periodic reviews that test the existing corporate structure against a range of alternatives.

Significant Items since Balance Sheet Date

On 8th February Austral Masonry completed the purchase of Boral's masonry operation at Prospect in New South Wales. This acquisition has enabled the rationalisation of production facilities, with the existing Port Kembla facility closed this month and volume transferred to Prospect. In addition to significant manufacturing and administrative synergies, the acquisition will enable an expanded paving and retaining wall product range to be offered along the East Coast. Furthermore, it will provide Brickworks with additional exposure to the expected strong growth in multi-residential construction in New South Wales over the medium term. The site at Prospect is under lease for a period of five years + an additional three year option.

Outlook

Building Products

Following the series of cash rate reductions from the Reserve Bank of Australia that commenced almost 18 months ago in November 2011, we are beginning to see some signs of life in the housing market with overall residential approvals increasing compared to the second half of FY2012. However the recovery in building activity remains patchy and approvals data shows that the increase is being driven by the other residential segment and we are yet to see a broad-based increase in detached housing activity, with a number of states still in decline.

However a recent uplift in consumer confidence levels[7] provides some optimism for the future. This is supported by anecdotal evidence that suggests a strong uplift in **residential housing activity** will occur in New South Wales, Western Australia and South Australia in the fourth quarter of this financial year.

Future returns are likely to be assisted by significant **industry rationalisation** in the building products industry. Significant capacity reductions and exits by competitors across bricks, roofing and masonry have created an improved industry structure. This is highlighted by the strong pricing outcomes achieved by these businesses in the first half. Over the remainder of the year, all divisions will continue to implement **price rises** as and when necessary to return margins to an acceptable level.

Brickworks **competitive position** is strong in most markets, following many years of continuous improvement programs, cost reduction initiatives, product development and prudent capital investment. Future capital investment will continue to support our stated strategy to be the lowest cost producer, with acquisitions and business growth projects being undertaken if appropriate and as opportunities arise. However with most identified major projects now completed, "stay in business" capital expenditure will be less than annual depreciation in future years.

[7] According to the Westpac / Melbourne Institute consumer sentiment index

Barring any unforseen economic shocks, the Building Products Group expect to deliver an improved result in the second half of 2013, on the back of ongoing benefits from internal restructuring activities and further price improvements. A successful settlement of outstanding insurance claims would also assist the result. In the medium term, industry rationalisation and forecast improvements in residential building activity will provide additional impetus to Building Products earnings.

Land and Development

Two major Property Trust developments were completed in the half. This comprises the Reedy Creek development on the M7 Business Hub in Sydney and Interlink, at Erskine Park in Sydney. The conclusion of these projects will provide additional rental returns and capital growth for the Property Trust. The Interlink property is now fully developed and leased. Only one property, consisting of 2.6 hectares, remains undeveloped on the M7 Business Hub.

The demand for new site developments is improving from a weak base across the broader market. Construction has commenced on the new 20,000m^2 DHL facility at Oakdale in Sydney (DHL's third facility on this estate). Toll Holdings' 8,000m^2 expansion to its existing facility on the M7 Business Hub commenced construction in January 2013. Both of these projects are due for completion in the second half of 2013.

The sale of Oakdale South into the Trust will facilitate the development of infrastructure and services for the site and will deliver an additional 62 hectares of developable land in the Eastern Creek employment area.

The rezoning of Rochedale to industrial in November 2012 provides an opportunity to develop surplus non operational land in the coming years. In addition, following the closure of the Riverview plant in Queensland, the 12.2 hectare site is now available for development and sub-division. Development approvals for these projects have recently been secured with work due to commence in the coming months.

Investments

The short term outlook for Investments is clouded by volatility in commodity prices; however the diversified nature of Washington H. Soul Pattinson's investments should continue to deliver increasing earnings to Brickworks over the long term.

Brickworks Group

Building Products earnings for the full year are expected to show a mild improvement on the prior year. Continued growth of the Property Trust and the significant increase in land sales, reported in the first half will also boost full year earnings. Investment earnings are difficult to predict in the short term.

LINDSAY PARTRIDGE
MANAGING DIRECTOR