



REVIEW OF RESULTS

JULY 2007

BRICKWORKS LIMITED

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BRICKWORKS SOLID RESULT DEFIES A SOFT HOUSING MARKET

\$ MILLIONS	July 06 12 mths	July 07 12 mths	Variance %
REVENUE			
Building Products	483.1	516.8	+7.0
Property & Waste	48.2	41.4	-14.1
Other	0.8	0.7	-12.5
Total	532.1	558.9	+5.0
EBIT			
Building Products	65.5	65.9	+0.6
Land and Development	55.2	60.3	+9.2
Associates & Investments	33.3	32.5	-2.4
Other & H.O.	(4.8)	(5.8)	+20.8
Total EBIT	149.2	152.9	+2.5
Total Borrowing Cost (incl PAVERS)	(25.4)	(27.3)	+7.5
Tax Expense	(21.9)	(23.4)	+6.8
NPAT	101.9	102.2	+0.3
Non-regular adjustments			
WHSP (non-regular items) (pre-tax)	(4.8)	13.9	+389.6
Rehabilitation / Asset Write Off (pre-tax)	(3.1)	(3.5)	+12.9
Non-regular Tax expense	8.2	(5.1)	-162.2
NPAT (including non-regular items)	102.2	107.5	+5.2
Normalised Earnings per share (cents)	76.8	77.0	+0.3
Earnings per share (cents)	77.0	81.0	+5.2
Final Ordinary Dividend (cents)	25.0	26.0	+4.0
Total Full Year Dividend (cents)	36.0	38.0	+5.6
NTA/Share	\$5.39	\$6.06	+12.4

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Highlights

- NPAT up 5.2% to \$107.5 million
- Normalised NPAT up 0.3% to \$102.2 million
- Building Products EBIT up 0.6% to \$65.9 million
- Land and Development EBIT up 9.2% to \$60.3 million
- Brickworks Property Trust market value up 117.9% to \$91.3 million
- Associates and Investments EBIT up 62.8% to \$46.4 million (including non-regular items)
- Value of WHSP investment during year up by 27.2% to \$1.014 billion
- Final dividend up 4.0% to 26.0 cents fully franked

Overview

Normalised Net Profit after Tax for the year to July 2007 of \$102.2 million was up 0.3% compared to \$101.9 million in the year ending July 2006. The result was supported by a record EBIT from Land and Development of \$60.3 million and a steady Building Products EBIT of \$65.9 million.

Normalised earnings per share (EPS) increased to 77.0 cents for the year ending July 2007 (Normalised EPS was 76.8 cents for the year ending July 2006).

Directors have declared a 4.0% increase in the final dividend to 26.0 cents fully franked, taking the full year dividend to 38.0 cents fully franked, up 5.6% from 36.0 cents the previous year.

The record date for both the final ordinary dividend and PAVERS dividend will be 16 November 2007 with payment being made on 3 December 2007.

Financial Analysis

The total free cash flow before capital expenditure and ordinary dividends was \$55.0 million, down from \$92.5 million on the previous year.

Cash flow was low due to the non-cash nature of the trust transactions and deferred settlements on some of the property sales to improve returns. Cash flow is expected to return to more normal levels during the coming year.

Total Interest Bearing Liabilities including PAVERS has increased by \$144.6 million from \$375.6 million in July 2006 to \$520.2 million at 31 July 2007.

During the period significant cash outlays included ordinary dividends of \$49.1 million and PAVERS dividends of \$10.8 million, along with capital expenditure of \$51.7 million, acquisitions of \$40.0 million, investment in the BKI rights issue of \$11.6 million and re-purchase of the Eastwood site in New South Wales for \$52.8 million to improve the return from the investment.

Borrowing expenses during the year, including PAVERS dividends, was \$27.3 million, up 7.5% on last year's \$25.4 million.

Net Debt (including PAVERS) to Capital Employed was 32.0% at 31 July 2007 compared to 27.2% at July 2006.

Gearing (debt to equity) increased to 48.5 % at 31 July 2007 from 39.0% at 31 July 2006 including PAVERS.

Interest Cover decreased slightly to 5.2 times at 31 July 2007 (6.3 times in July 2006) excluding non regular items and the non-cash portion of Equity Accounted profits. Interest includes bank debt interest and the PAVERS dividend.

Working capital at 31 July 2007 was \$199.7 million compared to \$115.0 million at 31 July 2006. The increase was largely the result of an increase in current inventory of \$66.9 million. Current land held for resale contributed \$42.8 million to this increase, being Eastwood, M7 Business Hub, Bolinda Road and Oxley.

Total Building Products inventory increased by \$26.4 million. Finished goods increased by \$18.8 million, of which \$2.9 million was attributed to acquisitions. Raw materials increased \$4.1 million due to accelerated mining at Horsley Park to facilitate additional revenue from Collex.

The tax expense has increased \$14.6 million to \$28.4 million for the year ended 31 July 2007 and is the result of non-regular tax adjustments in Accounting for Associates last year.

Brickworks Building Products

Market conditions*

Market conditions were steady through the period with total national dwelling commencements in the year to June 2007 at 150,993. This is still significantly down on the estimated underlying demand for housing in Australia of around 175,000 dwellings. Low affordability caused mainly by increased interest rates and government taxes and charges, continues to depress construction of new dwellings.

In **New South Wales** there were just 29,315 dwellings commenced during the year, down a further 8.5% on last years very low levels. This is the fourth year of decline in succession and is the lowest level of housing starts on record. Single dwelling commencements remained steady this year at 15,565, in line with last year's record low result. The New South Wales residential market has fallen over 40% from the peak market experienced in 2003.

In **Queensland** more prosperous conditions lead to a 9.4% increase in commencements for the year to 40,908 dwellings. Interestingly, South East Queensland which is predominantly a brick market only experienced growth in approvals of 4.2% during the year. The strong growth has been in Central and Far North Queensland, where approvals increased by 24.8% on the

* Commencements data sourced from ABS Cat. 8750.0 Dwelling Unit Commencements, Australia, Preliminary, June 2007

* Approvals data sourced from ABS Cat. 8731.0 Building Approvals, Australia, July 2007

previous year. This is a market dominated by concrete block and was one of the reasons for the company's decision to acquire the four masonry businesses throughout Queensland during the year.

Western Australian commencements were down by 4.0% to 24,560 dwellings during the year. More of a concern was the commencements during the second half of the 2006/07 year were 12.4% lower than the same period during last year, resulting in the backlog of construction being eliminated by financial year end.

Victorian commencements were down 1.6% to 38,495 dwellings, reflecting the more stable conditions prevailing in that state.

South Australian commencements were up 4.8% on the prior year to 11,119 dwellings, with good trading conditions currently prevailing. **Tasmanian** commencements were up by 11.8% to 2,865 dwellings during the year.

Results

Year Ending 31 July		2006	2007	Change %
Revenue	\$mill	483.1	516.8	+7.0%
EBITDA	\$mill	92.0	92.3	+0.3%
EBIT	\$mill	65.5	65.9	+0.6%
Capital Expenditure	\$mill	47.5	48.3	+1.7%
EBITDA margin		19.0%	17.9%	-5.8%
EBIT margin		13.6%	12.8%	-5.9%
Employees		1,494	1,478	-1.1%
Safety (LTIFR)		10.9	5.9	-45.9%
Revenue per employee		323,000	350,000	+8.0%
EBIT per employee		43,800	44,600	+1.8%

Sales for the year ending July 2007 were up 7.0% at \$516.8 million compared to \$483.1 million in the year ending July 2006. Sales were supported by acquisitions. On a like-for-like basis sales were up 3.2%.

EBIT for the year ending July 2007 was \$65.9 million, up 0.6% on the \$65.5 million in the year ended July 2006. On a like-for-like basis EBIT was down 5.0%.

Building products' focus is to maintain the EBIT to sales ratio and profitability despite the downturn and competitive environment. Building Products achieved an EBIT to sales ratio for the year ended July 2007 of 12.8%, down from 13.6% last year. EBITDA was \$92.3 million (17.9% to sales) for the year ended July 2007. This compared to the \$92.0 million (19.0% to sales) in the year ended July 2006. Both the EBIT and EBITDA to sales performance compare favourably to industry peers.

The company's extensive capital expenditure and maintenance program continued during the year. The program has delivered many real benefits including production cost reductions and improved product quality, along with safety and environmental performance improvements.

Productivity continued to improve with a reduction of 91 employees (6.1%). There were 1,478 employees at 31 July 2007 after allowing for acquisitions.

Capital expenditure totalled \$48.3 million in the year ended July 2007. Major projects during the year included the completed construction of the new brick plant at Wollert, Victoria and the upgrade of the existing brick plants at Golden Grove, South Australia and Bowral, New South Wales.

The business recorded a Lost Time Injury Frequency Rate¹ of 5.9. The substantial investment in safety training and equipment is showing results with this dramatically improved safety

¹ Lost Time Injury Frequency Rate (LTIFR) measures the number of lost time injuries per million hours worked

performance. While the result was satisfying, the company remains determined to continually improve workplace safety.

Exports have suffered in Asia where exchange rates, fuel driven shipping charges (bunker surcharges) and aggressive competitors have combined to make our products less attractive. Exports to New Zealand are now supported by a national distribution network. This has produced strong sales growth during the year and provides a platform for further growth in the future.

National marketing expenditure was boosted for the year as part of a long term program to increase understanding in the market of the benefits of brick and roof tiles. An extensive 'Think Brick' program was run in conjunction with the industry to promote the benefits of brick compared to alternative building products and improve the market perception of clay bricks.

The company is committed to achieving its business objectives in an environmentally sustainable and socially responsible manner. The reduction of its carbon footprint and water self-sufficiency is a primary focus for all business units. Historical data is being gathered to allow both forecasting of future emissions and to set internal emission reduction targets. Changes to internal processes are being made which will ensure that the company takes advantage of all opportunities from an increased community focus on sustainability and emissions.

Divisional Results

Austral Bricks™ overall brick sales volumes were down approximately 2% compared to the previous corresponding period, while net average selling prices increased by around 3%. Austral Bricks™ sales in New South Wales have tracked the fall off in the residential market since 2003.

Manufacturing volumes were steady as New South Wales production was shipped to Western Australia. However, even after this significant positive impact, national brick kiln capacity utilisation averaged only 75%. The resources boom has resulted in increased input costs and a national skilled labour shortage that has required significant overtime to be worked in order to keep factories running at efficient levels. Despite this, capital expenditure driven efficiency improvements have resulted in stable group brick manufacturing costs during the year.

Construction of the most efficient brick factory in Australia at Wollert, Victoria was completed during the year. This plant is in the commissioning phase and is running exceptionally smoothly at 80% of capacity. The plants' performance trials are expected to be completed during the current first half of 2007/08. All water and most clay will come from the Wollert site, further improving the new factory's environmental performance and consequently reducing the embodied energy of the bricks produced. Wollert represents the future of low environmental impact plants.

Commissioning of the upgraded Golden Grove plant in South Australia was completed on budget and on time. The introduction of robotic brick handling equipment greatly reduced the cost of manufacture and enhanced production flexibility.

A new robotic packaging plant has been installed at the Bowral plant in New South Wales. This is the final stage of the plant upgrade at Bowral.

The company is now closer to achieving its goal of eliminating manual handling of bricks during the production process at all brick plants.

Austral Masonry™ expanded with acquisitions totalling \$40.0 million in Queensland. These included GB Masonry (Gympie), Caloundra Block, Whitsunday Concrete and Block (Proserpine) and Ayr Masonry (South of Townsville). The acquisitions are performing very well, successfully leveraging off the large sales infrastructure of the existing Austral Bricks™ business. These acquisitions have increased Brickworks' exposure to the fast growing state of Queensland and provide further diversification of earnings for the company.

Bristle Roofing™ continues to improve with higher quality product being the catalyst to drive price increases across all markets and products. Margins increased sharply compared to the same period last year. The low exposure of Bristle Roofing™ to the New South Wales residential market again assisted the result. Strong performances were also recorded in Queensland and Western Australia. Substantial improvements in factory efficiency, product quality and service have had a significant positive impact on profitability.

Eureka Tiles™ again significantly increased sales of imported product and achieved a solid performance from traditional lines. The Fast Fire production facility was decommissioned at the end of the year and has been written-off. The increased focus on imported products will drive increased revenue and profits from this division.

Auswest Timbers™ operates mills and value adding facilities in Western Australia, ACT and Victoria. The successful commissioning of the Western Australian value adding facility and the upgrading of the Bairnsdale value adding facility during the year were highlights. This transformation of the business has resulted in higher selling prices however, it has also resulted in higher manufacturing costs and stock levels during the initial period of production. Overall, Auswest Timbers™ experienced a flat profit compared to the previous period.

Brickworks Land and Development

The year ended July 2007 produced a record EBIT of \$60.3 million, an increase of 9.2% on last year's result along with a significant increase in the value of the company's Property Trust investment to \$91.3 million.

Land and Development (excluding Waste Management) generated a total profit of \$58.2 million for the year.

Profit of \$10.3 million was realised from the sale of land in the eastern precinct of the M7 Business Hub to third parties. Other land sales to external parties generated a profit of \$16.1 million and included Hallam and Cranbourne in Victoria and Muchea in Western Australia.

The first six residential lots were sold at Eastwood, NSW for a profit of \$828,000. Re-purchase of the Eastwood site for \$52.8 million (excluding GST) was conducted to improve returns on the investment and was completed via the acquisition of the outstanding 50% of Newthorpe² from Investa Property Group.

Following further work on the Eastwood site, it was announced to the market on 24 September 2007, the property had been sold to AV Jennings Limited for \$70 million including GST.

Sales of land to the Property Trust at the M7 Business Hub, NSW in the year totalled 31.7 developable hectares for a total profit of \$24.6 million. The Property Trust also received a development approval for the Interlink Distribution Park (Erskine Park, NSW) which realised a greater developable area than expected and a further \$3.9 million profit to Brickworks.

² Newthorpe was the development vehicle formed to undertake the development of the site.

Property Trust activities for the year included securing pre-commitments from Kimberly Clarke, Woolworths and Ubeyco for the Interlink Distribution Park site and commencement of construction of these facilities. Construction is progressing well for the Coles cold store facility in the M7 Business Hub.

Practical completion was reached in July 2007 for the Toll warehouse facilities in the M7 Business Hub providing a development profit. This has also resulted in the commencement of the first lease by the Property Trust.

The Property Trust investments are included in Equity Accounted Investments on the Balance Sheet. The carrying value of these properties is \$56.4 million. The current market value of the Brickworks' share of those properties is \$91.3 million, up 117.9% on the market value at July 2006.

During the year 468 hectares of land were acquired by the group and a total of 177 hectares were sold.

Waste Management at the Horsley Park, NSW and Bowral, NSW waste facilities contributed \$2.1 million to profit over the 2006/07 financial year.

Brickworks Investments

Through its investments, Brickworks has a substantial exposure to the Australian equity markets. The buoyancy of these markets over the past four years has proven their value. Increases in the value of investments are not booked to profit unless realised.

Washington H. Soul Pattinson Limited ("WHSP")

ASX Code: SOL

The equity contribution of WHSP, including non-regular items, to 31 July 2007 was \$42.7 million compared to \$24.7 million in the same period last year.

During the year the market value of Brickworks' 42.85% share of WHSP increased \$216.8 million (27.2%) to \$1.014 billion at 31 July 2007. Fully franked dividends of \$43.5 million (\$41.9 million last year) were received, which included a special dividend of 15 cents per share in both years.

At 31 July 2007 WHSP held significant investments in Brickworks, New Hope Coal, SP Telemedia, API, KH Foods, Clover, Pitt Capital Partners and Souls Private Equity. In addition to these cornerstone investments, WHSP maintains a substantial investment in a broad portfolio of entities listed on the Australian Stock Exchange.

During the period WHSP participated in a renounceable rights issue in order to re-capitalise KH Foods. API was the subject of further substantial review which has revealed an additional non-regular write-off of \$30.5 million.

In July 2006 New Hope Coal ("NHC") acquired a substantial shareholding in Arrow Energy NL. This investment increased in value by \$231.6 million during the year ended 31 July 2007 and continues NHC's stated strategy of diversification beyond its domestic coal energy business.

The investment in WHSP has a 15 year compound annual return of 14.8% compared to 13.6% in the ASX All Ordinary Accumulation Index. The compound annual returns for five years is 19.6% compared to 19.9% in the ASX All Ordinary Accumulation Index.

Brickworks Investment Company Limited (“BICL”)

ASX Code: BKI

Brickworks' equity accounted share of the BICL profit was \$3.1 million. At 31 July 2007 Brickworks held 20.5% of BICL issued share capital.

BICL has reported a Net Profit after Tax of \$14.9 million to 30 June 2007 compared to \$12.8 million in the year to 30 June 2006.

A fully franked final dividend of 2.7 cents per share was declared bringing total ordinary dividends for the year to 5.3 cents per share compared to 5.0 cents per share in the previous corresponding period. Last year also included a 1.0 cent special dividend.

During the year BICL completed a 1 for 5 rights issue at \$1.35 per share and received additional funds of \$56.7 million. Brickworks invested \$11.6 million in this rights issue. Following the rights issue the BICL MER³ fell a further 17.9% to 0.46%.

The value of Brickworks' investment in BICL increased 35.1% from \$57.8 million to \$78.1 million in the twelve months to 31 July 2007 (including the rights issue). BICL's total portfolio value increased by 43.5% during the period to \$423.0 million from \$294.7 million.

BICL invests in equities traded on the Australian Stock Market (ASX). As at 31 July 2007, BICL's five largest investments were National Australia Bank, Commonwealth Bank, BHP Billiton, New Hope Corporation and St George Bank. The current share market volatility should provide opportunities to invest some of the funds raised in the rights issue.

Net Asset backing per share before tax as at 31 July 2007 has also increased to \$1.65 per share from \$1.42 per share as at 31 July 2006, a 16.2% improvement.

The BICL share price has increased from \$1.34 per share at 31 July 2006 to \$1.51 per share at 31 July 2007, a 12.7% increase.

Subsequent to end of the financial year, BICL made a share placement at \$1.45 per share to raise a further \$49.3 million. Brickworks share of BICL has reduced to 18.0% as a result.

Outlook

Building Products

Housing construction affordability continues to decline with interest rates increasing and limited access to affordable land in many markets. It is expected the building industry will continue to face tough times until interest rates start trending down and affordability improves.

Brickworks estimate that residential dwelling commencements will fall from 151,000 in 2006/07 to between 148,000 and 150,000 in 2007/08.

³ 'MER' is Management Expense Ratio, which measures the total management expense against the average total assets under management for the period.

Western Australian dwelling commencements are in decline. The remainder of Australia is expected to be relatively steady during the coming year. There is no sign of a recovery in New South Wales.

The impact from the recent interest rate rises in both Australia and New Zealand is yet to be seen.

Land and Development

The Brickworks land bank is in desirable locations and is expected to contribute strongly to future profits with a solid pipeline of developments.

Significant returns are expected during 2008 from both the M7 Business Hub and the Interlink Distribution Park as more projects are completed and further lease rentals commence. This will increase the annuity income stream coming from the Property Trust and gradually reduce the volatility of earnings.

Investments

Investments, along with Land and Development will continue to provide diversity to the fluctuating earnings from Building Products.

LINDSAY PARTRIDGE
MANAGING DIRECTOR