

BRICKWORKS

LIMITED

12 April 2011

Dear Shareholder,

I am writing to you today on behalf of your Company, to outline our concerns in regards the proposed carbon tax.

As you would know, Brickworks is a major manufacturer and employer in the building industry, operating 31 manufacturing sites nationally and employing around 1,500 people, many in rural centres where our company's operations are the main source of employment for the township.

Brickworks has a proven track record in reducing fuel consumption and lower carbon emissions for over 100 years. Most recently, the company voluntarily reduced its CO₂ emissions by 30%, from a historical peak of 600,000 tonnes to 400,000 tonnes in 2009/10. An example of this commitment is the significant investment in our Victorian brick operations with two new, low-emission plants which will achieve annual emissions savings of 40% compared with the old facilities.

But our success in reducing emissions ahead of the introduction of the carbon tax and the current nature of the building materials market means Brickworks will fall outside the 'so-called' "emissions-intensive trade-exposed (EITE) business" sector. In other words we are being punished for already having an effective track record in tackling carbon emissions.

We anticipate that under the proposed carbon tax there will be significant distortions in the market for building materials with the planned compensation arrangements for steel and cement industries leading to price benefits in substituting steel and cement products for (uncompensated) brick products. This is not a level playing field and represents a serious threat to Brickworks ongoing profit margins.

Under the proposed carbon tax, Brickworks could face a combined income/carbon tax of initially 45%, potentially climbing to 60% of earnings from our Building Products division. Based on Brickworks' current emission levels, a carbon tax at \$20 per tonne would equate to an \$8 million (or 15%) reduction in earnings. At \$40 per tonne this increases to a \$16 million reduction in earnings (or 30%).

We would anticipate the fall in sales resulting from the substitutability of ("compensated") steel and cement products would compound the market pressure on the operations of Brickworks. Several operating sites of Brickworks may become unsustainable, without support as an EITE business. This would result in the loss of many jobs, the write-off of assets and goodwill, along with incurring significant in demolition costs.

This flies in the face of what we understood were the key principles guiding development of a carbon price mechanism, in particular competitiveness and investment certainty.

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The sourcing of building materials offshore is a real alternative to domestic production. Brickworks has already ceased production of floor tiles as we could not compete with cheaper imports, and during periods of peak demand both Brickworks and other manufacturers have previously imported both bricks and roof tiles.

Generally, these imports have been from countries which have not put a regulated price on carbon. Without a uniform international response, an Australian carbon tax will only increase the likelihood of brick and building products being sourced from countries that do not comply with a similar regime.

We would also like to stress the wider implications for the house construction industry of the proposed carbon tax. We acknowledge that the manufacture of some alternate building products can result in lower carbon emissions at the point of manufacture, but we want to reinforce that building with bricks, while more emissions intensive during the manufacturing process, have already been proven to bring significant savings of heating and cooling over their 50 year plus life cycle. It has been reported that bricks provide a quantifiable return of around four years when compared to alternate products.

The 'whole-of-life' perspective is vital to ensure that long-term solutions are put in place, rather than short-term carbon reductions that have long-term consequences. If lightweight homes are constructed throughout the country, not only will the standard of housing be reduced, but the actual energy used in heating, cooling and maintaining homes will increase, placing further demands on electricity generation, including increased carbon emissions and potentially higher energy prices for all Australians.

Our overall assessment is a negative impact on housing affordability throughout Australia at a time when housing prices are already seen as unaffordable and housing construction levels are well below underlying demand.

Brickworks is of the view that Australia should take a long-term and risk management approach to climate change policy. The proposed carbon tax will see Australian companies at a competitive disadvantage to countries with more effectively designed schemes, or those with no scheme at all. We do not see an upside to the Government's plans.

If Brickworks operated in France, under the European model of cap and trade, the Government would be paying us for reducing carbon emissions by more than 30% since 2000. In Australia the reward for good performance is a guaranteed tax. It is all "stick" and no "carrot".

Please be assured that your Company is doing all it can to protest against the proposed carbon tax. We encourage our shareholders to also voice their concerns surrounding this issue.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Robert Millner', with a long horizontal flourish extending to the right.

Robert Millner
Chairman