

BRICKWORKS LIMITED

A.B.N. 17 000 028 526

DIRECTORS' REPORT

The Directors of Brickworks Limited present their report and the financial report of Brickworks Limited and its controlled entities (referred to as the Brickworks Group or the Group) for the financial year ended 31 July 2008.

Directors

The names of the Directors in office at any time during or since the end of the year are:

Robert D. Millner FAICD (Chairman)
Michael J. Millner (Deputy Chairman)
Lindsay R. Partridge BSc. Hons. Ceramic Eng; SFCDA; Dip. CD (Managing Director)
Alan J. Bentley FAICD (retiring 25 November 2008)
Brendan P. Crotty (appointed 10 June 2008)
Timothy V. Fairfax AM, FAICD (retiring 25 September 2008)
David N. Gilham FCIT; FAIM; FAICD
The Hon. Robert J. Webster MAICD; MAIM; JP

All Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

Principal activities

The principal activities of the Brickworks Group during the year were the manufacture of building products, property realisation and investment.

Result of operations

The consolidated net profit for the year ended 31 July 2008 of the Brickworks Group after income tax expense, amounted to \$101,478,000 compared with \$107,533,000 for the previous year.

Dividends – ordinary shares

The Directors recommend that the following final dividend be declared:

Ordinary shareholders – 26.5 cents per share (fully franked)

Dividends paid during the year under review were:

- (a) Final ordinary of 26.0 cents per share (fully franked) out of profits for the year ended 31 July 2007 and referred to in the previous Directors' report;
- (b) Interim ordinary of 12.5 cents per share (fully franked) paid 12 May 2008.

Dividends – Redeemable Preference Shares

A dividend on Redeemable Preference Shares (PAVERS) is scheduled to be paid on 1 December 2008 for the period 1 June 2008 to 1 December 2008, calculated at 6.565% p.a. per PAVERS (fully franked), or \$3.31 per share.

PAVERS dividends paid during the year under review were:

- (a) Dividend paid on 2 June 2008 for the period 1 December 2007 to 31 May 2008, calculated at 6.565% p.a. per PAVERS (fully franked). This equated to \$3.27 per share.
- (b) Dividend paid on 3 December 2007 for the period 1 June 2007 to 30 November 2007, calculated at 6.565% p.a. per PAVERS (fully franked). This equated to \$3.29 per share.

REVIEW OF OPERATIONS

Highlights

- **Brickworks Normalised NPAT up 5.9% to \$108.2 million**
 - o Building Products EBIT down 18.7% to \$53.6 million
 - o Land and Development EBIT up 55.4% to \$93.7 million
 - o Associates and Investments EBIT up 13.5% to \$36.9 million
- Brickworks Property Trust market value up 90.7% to \$174.1 million
- Value of WHSP investment up by 5.4% to \$1.069 billion
- Full Year dividend up 1.0 cent to 39.0 cents fully franked

Overview

Brickworks (ASX: BKW) posted a Normalised Net Profit After Tax ('NPAT') for the year ended 31 July 2008 up 5.9% at \$108.2 million, compared to \$102.2 million for the year ending 31 July 2007. This is the seventh increase in Normalised NPAT in succession. After non-regular items, Brickworks NPAT was \$101.5 million, 5.6% lower than the previous year.

The result continues to highlight the benefits of the growing diversification of Brickworks earnings from its three divisions of Building Products, Land and Development and Investments.

Normalised earnings per share ('EPS') increased to 81.5 cents per share for the year ending 31 July 2008, up from 77.0 cents per share for the year ending 31 July 2007.

Directors have declared an increase in the final dividend to 26.5 cents fully franked, taking the full year dividend to 39.0 cents fully franked, up from 38.0 cents the previous year.

The record date for the ordinary dividend will be 26 November 2008, with payment being made on 10 December 2008. The record date for both the final PAVERS dividend and the PAVERS redemption will be 24 November 2008 with payment being made on 1 December 2008.

Financial Analysis

The total free cash flow before capital expenditure and ordinary dividends was \$98.0 million, up 78.2% from \$55.0 million the previous year. A total of \$56.7 million was received from completion of several property settlements.

During the period significant cash outlays included ordinary dividends of \$51.1 million and PAVERS dividends of \$10.8 million, along with capital expenditure of \$40.7 million and total acquisitions of \$24.4 million.

Total Interest Bearing Liabilities including PAVERS increased by \$42.7 million from \$520.2 million at 31 July 2007 to \$562.9 million at 31 July 2008.

Net Debt (including PAVERS) to Capital Employed was steady at 32.0% at 31 July 2008 compared to the previous year. Gearing (debt to equity) increased to 50.6% at 31 July 2008 from 48.5% at 31 July 2007, including PAVERS.

The PAVERS are now included in Current Liabilities due to the redemption date being 1 December 2008.

The company successfully negotiated its first syndicated borrowing facility during the year for \$600 million. This included a \$300 million 3 year facility, a \$150 million revolving 12 month facility and a further \$150 million facility for up to three years specifically for the redemption of the PAVERS Reset Preference Shares.

Working capital, excluding land held for resale increased slightly to \$150.1 million at 31 July 2008, compared to \$147.1 million at 31 July 2007.

Total Building Products inventory levels increased by \$6.3 million to \$145.2 million. Since 31 July 2007 finished goods inventory increased by \$2.7 million. Raw materials and work in progress increased by \$3.6 million.

Borrowing expenses during the year including PAVERS dividends were \$37.3 million, up 36.6% on the \$27.3 million for the previous corresponding year. This increase was the result of rising interest rates and higher average debt levels.

The tax expense increased by \$1.3 million to \$29.7 million for the year ended 31 July 2008.

Brickworks Building Products

Market conditions*

Market conditions were steady during the period with total national dwelling commencements in the year to 30 June 2008 at 156,792. This is an increase of 3.0% on the commencements for the year ended 30 June 2007, but still well down on the estimated underlying demand of around 180,000 commencements. Low affordability, primarily caused by higher interest rates along with government taxes and charges, continues to depress the construction of new dwellings.

While the overall national housing commencements were higher, the growth in the market during the past year was in the higher density dwelling sector, with an increase of 9.0%. The new housing sector increased by only 0.5% during the year.

In **New South Wales** there were just 30,756 dwellings commenced during the year to 30 June 2008, an improvement of 3.1% on the year to 30 June 2007. However the improvement was in the higher density dwellings sector, with new housing actually decreasing 0.7% during the past year.

Investors left the New South Wales market following the introduction of the Vendor Tax in 2004. Positive government policy is now required to attract these investors back to New South Wales to alleviate the fundamental shortage of housing construction.

In **Queensland** commencements increased by 6.5% for the year to 30 June 2008 to 43,805 dwellings, however the strength of this market was in the first half of the financial year with activity in the second half falling away dramatically.

Victorian overall commencements were up 8.2% to 41,806 dwellings. The new houses sector was up 4.4% during the year but the real strength was in the higher density dwelling sector, increasing by 22.3% to 10,411 commencements.

Western Australian commencements again declined with a fall of another 9.9% to 22,361 dwellings. However more importantly for Brickworks was the 15.5% decline in the number of new houses commenced.

South Australian commencements were up 7.4% on the prior twelve months to 12,081 dwellings, with South Australia the only state to record improving market conditions during the second half.

Tasmanian commencements were up by 1.3% to 2,902 dwellings during the year to 30 June 2008.

Results in detail

Sales for the year ending 31 July 2008 were up 0.6% to \$520.0 million compared to \$516.8 million in the year ending 31 July 2007.

* Commencements data sourced from ABS Cat. 8750.0 Dwelling Unit Commencements, Australia, Preliminary, June 2008

EBIT for the year ending 31 July 2008 was \$53.6 million, down 18.7% on the \$65.9 million in the year ended 31 July 2007. This was the result of many factors, including lower volumes impacting on unit manufacturing costs and requiring prolonged production shutdowns, extreme weather conditions impacting the already weak east coast and the gas supply stoppages in Western Australia during both January and June 2008.

Sales levels continue to be depressed by housing affordability issues. During the year four official interest rate rises were passed by the Reserve Bank ('RBA'). The major banks also increased interest rates independently of the RBA due to the higher underlying cost of funds. This, combined with higher fuel costs, has impacted on housing affordability.

Compounding this, several large price increases on a number of inputs, in particular manganese, energy and fuel substantially contributed to higher manufacturing costs. Due to the speed of these price increases, initially they were absorbed by the company. However to remain viable in the long term selling prices must increase by around ten percent just to cover these additional cost burdens.

The company continues to face pressure in regards to labour costs and the retention and recruitment of skilled staff. Overall employee levels declined slightly during the year with reduced numbers in New South Wales and Western Australia offset by the expansion of operations in the Bristle Roofing™ and Austral Masonry™ divisions. The number of contractors employed was reduced as capital projects were completed and plants were taken off-line. There were 1,458 employees at 31 July 2008. This level is almost 3.0% lower than at 31 July 2007, before inclusion of the 25 employees added through acquisitions.

Business acquisitions totalling \$13.1 million were completed during the year, comprising Smart State Blocks (Yatala, SEQ) and NQ Blox (Silkwood, 100km south of Cairns). These masonry businesses have again successfully increased Brickworks' exposure to the Queensland market and provide further diversification of earnings for the company.

A primary goal of Brickworks is to operate its business in a sustainable manner. One of Brickworks' sustainability goals is to ensure that each business is supported by at least one generation of raw material reserves. During the year \$7.0 million was spent acquiring clay reserves in Berrima, NSW that once approved, will support the Austral Bricks™ Bowral operation for approximately fifty years. A further \$4.3 million was spent acquiring the Bundaberg Clean Sands business to secure sand reserves that supply the GB Masonry™ business.

Brickworks' extensive capital expenditure and maintenance program continued during the year, delivering many benefits including improved product quality, production efficiency, safety and environmental performance improvements.

Capital expenditure totalled \$26.9 million in the year ended 31 July 2008, including \$5.8 million of major projects and \$21.1 million of stay-in-business capital works. The major projects completed during the year included the commissioning of the Wollert, Victoria plant which was finalised during January 2008, packaging plants in Bowral, New South Wales and Longford, Tasmania and a new raw material grinding plant in Rochedale, Queensland. Several major capital projects are still in progress. When completed they will reduce unit production costs and improve product quality.

Brickworks remains committed to improving workplace safety. The substantial investment in safety training and equipment over the years has resulted in dramatically improved safety performance for the group. The on going commitment to safety has resulted in a continued good performance with a Lost Time Injury Frequency Rate¹ of 6.6 recorded for the year.

During the year Brickworks executed supply agreements for its electricity and gas requirements of the Building Products division through to 2012. These were struck at significantly higher rates than the previous contracts as domestic energy costs have moved towards international contract pricing. The impact of this higher cost will be realised as existing contracts expire during the coming two years.

National marketing expenditure continued during the year with the company continuing to support the work undertaken by the industry association 'Think Brick'.

During the year studies continued to better understand the environmental performance of all Building Products over the service life of the product, not just the energy required at the point of manufacture. Testing completed by the University of Newcastle has proven as a scientific fact that building with Full Brick or Brick Veneer significantly improves thermal comfort levels and reduces heating and cooling costs in comparison to alternate lightweight building materials.

While there is ongoing debate as to the actual proven environmental impact from carbon emissions, Brickworks is committed to reducing its carbon footprint. Over the years several major projects have been completed by Brickworks to reduce both operating costs and the level of its carbon emissions. To highlight the extent of these reductions, during the year ended 31 July 2008 Brickworks calculated carbon emissions were approximately 9.5% lower than its emissions during the year ended 31 July 2007.

An Emissions Trading Scheme that sets emission targets based on already reduced emission levels or provides a comparative advantage to alternate building materials remains of concern to Brickworks. Without protection, the clay brick industry will also face the threat of substitute imported products manufactured in countries that are not subjected to an Emissions Trading Scheme, such as the one being proposed for Australia.

Divisional Results

Austral Bricks™ overall brick sales volumes were down approximately 6.3% compared to the previous corresponding period, while net average selling prices increased by around 2.1%.

Manufacturing volumes were lower by 9.3% as the supply of product from New South Wales to Western Australia ceased and manufacturing rates were slowed to match sales. Poor weather conditions impacted heavily on the results, with Sydney and the majority of Queensland in particular impacted by higher than usual rainfall during the first half of calendar year 2008.

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

During February 2008 two New South Wales brick kilns were taken offline due to the poor state of the market. The two kilns remain in full operating condition and are available to return to production immediately when required. During the year a total of 56 redundancies were made in New South Wales at a cost of \$2.1 million.

The West Australian factories experienced two separate gas supply interruptions during the year. The first in January 2008 was for a three day period. The second more serious interruption occurred during June 2008 as a result of the Apache gas plant explosion. Two Austral Bricks™ operations temporarily ceased operation for around six weeks to divert the available energy to higher priority users. Even with these interruptions, the West Australian division delivered a solid result despite the declining sales volumes and overall market softening.

The commissioning phase of the Wollert plant in Victoria was completed during January 2008. The new factory has delivered pleasing results in line with expectations, in terms of both throughput and lower energy usage in comparison to the Scoresby plant it replaced. Demand for product has been successfully transferred to Wollert from Scoresby with the Wollert factory now running at design capacity.

Results in the Queensland, South Australian and Tasmanian operations improved significantly during the year as a result of completed capital projects in these operations. These businesses, along with the Victorian operation, are now in a position to deliver solid returns for the company over the long term.

Austral Masonry™ continues to grow with a 55.4% growth in sales revenue compared to the previous year. This was despite the extreme wet weather conditions during the second half of the year. The Austral Masonry™ business now has a greater than 20% market share of the concrete masonry market in Queensland.

Manufacturing operations were impacted by cement rationing that occurred in Queensland during May and June 2008 and a rapid deterioration in market conditions in the last quarter.

Bristile Roofing™ again delivered a solid performance throughout the year, despite the poor market and weather conditions on the East Coast. The continued focus on higher quality product and service drove a further 1.7% increase in selling prices. The Bristile Roofing West Coast factory was closed for a period of six weeks to divert energy after the Apache Gas explosion, with the opportunity taken to undertake necessary maintenance on the factory. During the year an extra shift was added at the Dandenong, Victoria plant to meet market demand for product.

Eureka Tiles™ achieved a much improved result on higher sales volumes of 8.9%. While selling price increases were achieved across the business, the business mix again changed with imported tile sales volumes increasing by 84.5% during the year. This resulted in a lower net average selling price, however when combined with the lower cost of imported product the selling margins improved. The development of new products and relationships with strengthened Asian suppliers continues to provide the Eureka Tiles division with growth opportunities.

Terrace sales increased significantly as market acceptance of the product in Australia and New Zealand continued to improve. Several large contracts including two McDonalds stores in New Zealand, Royal North Shore Hospital (NSW) and the King George Square Bus Station in Brisbane were completed during the year.

Auswest Timbers has been successfully transitioned to a value-adding timber manufacturer with a further 8.5% growth in sales revenue for the year due to higher volumes. The business also delivered increased unit selling prices, however the export of Auswest products continue to be affected by the higher Australian dollar. Overall manufacturing costs at the Auswest operations improved slightly on last year however the increasing cost and reducing size and quality of logs supplied by the various state governments continues to be of concern to the group.

Brickworks Land and Development

Land and Development produced an EBIT of \$93.7 million for the year ended 31 July 2008. This represents an increase of 55.4% over the EBIT achieved last year of \$60.3 million. The result is the highest return provided to date by Land and Development and continues to highlight the success of the Brickworks Property strategy.

Property Sales generated a total profit of \$68.7 million for the year ended 31 July 2008.

The major transaction for the year was the sale of the first stage of Oakdale into the JV Property Trust. The lot sold will provide 40 hectares of developable land with construction planned for a 20,000m² facility for DHL, subject to Development Application approval. The transaction resulted in a profit of \$31.0 million and included a cash payment of \$7.2 million to Brickworks.

Other property sales for the financial year included the first stage of Eastwood providing \$4.1 million profit. The remaining two stages of the site are due to settle during the coming year. A further 4.6 hectares of the M7 Business Hub was also sold into the JV Property Trust providing a profit of \$3.4 million, following consolidation elimination.

A profit of \$23.1 million was realised through the completion of JV Property Trust assets. Facilities completed included the Coles Cold Store and three facilities on the Mamre Road site leased to Woolworths, Kimberly Clark and Linfox.

During February 2008 the company signed contracts for the sale of its 56 Hectare Scoresby site to Mirvac Wholesale Residential Development Partnership Trust for \$102.5 million, excluding GST. An objection was received to the Development Application for rehabilitation of the site, resulting in settlement on the first stage being delayed. The issue has now been resolved, with settlement of stage one anticipated to complete during the current half. Significant site preparation works were completed on the Scoresby site during the year.

The **Property Trust** generated a total profit of \$24.7 million from Development profit and Trust income during the year ended 31 July 2008.

Total development profits of \$15.4 million were achieved on the completion of the facilities for Coles Cold Store, Woolworths, Kimberly Clark and Linfox.

Rental Income increased over the period and provided \$1.6 million in profit. This included rent from Toll for the entire period and Coles Cold Store for seven months. The Mamre Road properties were all completed in July 2008 and will start to contribute to the Property Trust profit in the coming year. The facilities completed during the year were revalued to current market value resulting in \$7.7 million profit.

Other Property Trust activities during the year ended 31 July 2008 included the commencement of construction on the ITT Flygt and Chemson Pacific facility on M7 Business Hub. This facility has been completed since the end of the financial year.

At 31 July 2008 Brickworks share of the Property Trust assets was \$299.3 million, with borrowings of \$125.2, giving a net equity position of \$174.1 million, up 90.7% on the value at 31 July 2007.

Waste Management at the Horsley Park, NSW and Bowral, NSW waste facilities contributed \$1.7 million to profit in the year to 31 July 2008.

Brickworks Investments

Washington H. Soul Pattinson Limited (“WHSP”)

ASX Code: SOL

The contribution of WHSP, excluding non-regular items, to 31 July 2008 was \$32.1 million compared to \$28.8 million in the year ended 31 July 2007. WHSP also recorded non-regular writedowns to the carrying values of some assets of its subsidiaries and associates with a before tax affect totalling \$9.6 million.

During the year ended 31 July 2008 the market value of Brickworks' 42.85% share of WHSP increased by \$55.0 million or 5.4% to \$1.069 billion. Fully franked ordinary dividends of \$29.7 million were received during the year, compared to \$28.2 million during the year ended 31 July 2007. A fully franked special dividend of \$15.3 million was also paid in the year ended 31 July 2007.

At 31 July 2008, WHSP held significant investments in Brickworks, New Hope Corporation, SP Telemedia, API, 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 year SP Telemedia, a subsidiary of WHSP completed a merger with TPG Group, one of Australia's leading internet providers.

Also during the year KH Foods completed the sale of its cakes and savouries business to George Weston Foods, along with the sale of its Balfours and Betabake businesses to the San Remo group.

On 10 September 2008, New Hope Corporation announced the completion of the sale of its New Saraji project to a BHP Billiton led Joint Venture for \$2.450 billion cash. New Hope Corporation currently has no debt, with several post-transaction capital management options being available to the company. This transaction will see significant benefits flowing to the Brickworks Group in the coming year.

The investment in WHSP has a compound annual Total Shareholder Return for 10 years of 17.6% compared to 10.6% for the ASX All Ordinary Accumulation Index.

Brickworks Investment Company Limited (“BICL”)

ASX Code: BKI

BICL has reported a Net Profit after Tax of \$22.6 million to 30 June 2008 compared to \$14.9 million in the year to 30 June 2007, an increase of 51.2%.

Brickworks' equity accounted share of the BICL profit was \$4.1 million. At 31 July 2008 Brickworks held 17.8% of the BICL issued share capital. The dividend received was \$2.9 million for the year.

Fully franked dividends of 6.0 cents per share were declared for the year compared to 5.3 cents per share in the previous year, an increase of 13.2%.

The market value of Brickworks' investment in BICL decreased 15.2% from \$78.1 million to \$66.2 million during the year. The S&P ASX200 decreased by 19.0% during the same period. The Total Portfolio Value of BICL increased by 3.5% to \$437.6 million during the period, up from \$423.0 million at 30 June 2007.

BICL invests in equities traded on the Australian Stock Market (ASX). As at 31 July 2008, BICL's five largest investments were New Hope Corporation, National Australia Bank, BHP Billiton, Commonwealth Bank and Woolworths Limited.

At 30 June 2008 BICL held cash reserves of \$43.6 million, mainly from a completed share placement of 34 million shares to raise \$49.3 million during August 2007 at \$1.45 per share.

Outlook

Building Products

The impact on housing commencements from the interest rate rises during the past year is now being seen. Brickworks expect that the current half year will continue to suffer in this tougher environment, with no improvement expected until some time in 2009. Very tight rental markets and record immigration levels continue to drive pent up levels of demand for housing, particularly in New South Wales. While lower interest rates will improve housing affordability, lower rates alone are not sufficient. Positive government policies and actions are required to encourage investment and drive the recovery of the housing market.

Forecasts for the coming year are for a decrease in overall commencements. Victoria, South Australia and Tasmania are expected to remain solid, with New South Wales and Western Australia stabilising and Queensland weaker.

Several manufacturing sites are scheduled to have extended shutdowns during the current half to reduce stock holdings and balance output with lower sales volumes. Many of our east coast manufacturing sites have also recently been impacted by industrial action.

A program is in place to ensure the significant input cost increases impacting the company are passed on to the market in order to maintain selling margins.

The strength and timing of any recovery in overall trading conditions will determine the level of profitability of the Building Products business in the coming year.

Land and Development

The Brickworks Land and Development division will continue to contribute strongly to future profits with a solid pipeline of developments. The Property Trust now holds five fully leased assets, providing the company with a significant and stable growth engine as distribution profits increase. The Brickworks land bank currently comprises 4,960 hectares of land. A ten year plan is in place for the development of several of these sites.

Reliance on one-off asset sales to generate Land and Development profits will continue to reduce over time and be replaced by Trust returns.

The result for the coming year will be boosted by the expected settlement of the sales of the remaining stages of both the Eastwood and Scoresby sites.

Investments

While Investments have been somewhat volatile during the year, the performance of WHSP and BICL has been well ahead of the overall performance of the Australian share market.

The 2009 result will be boosted by the recently announced sale of the New Saraji project by New Hope Corporation for \$2.45 billion. This cash transaction will provide both significant profit and cash flow to New Hope Corporation, with Brickworks benefiting due to its holding in WHSP and BICL, which in turn hold a majority ownership of New Hope Corporation.

Brickworks Group

Brickworks anticipate that it will have a solid half year and full year result, although Building Products and Land and Development will be lower. Once again this highlights the strength of the diversified strategy and model of Brickworks.

Significant changes in state of affairs

There were no significant changes in the state of affairs of the Brickworks Group during the year, other than those events referred to in the Review of Operations and the financial statements.

After balance date events

On 9 September 2008, Brickworks announced it would buy back all of the Preferred Adjustable Variable Exchangeable Resettable Shares (PAVERS) on issue, at their issue price of \$100 per PAVERS on the reset date of 1 December 2008. The total amount of the buy-back is to be \$165.0 million, in accordance with the terms of issue of the PAVERS. The buy-back is to be funded using the third tranche of the unsecured variable interest rate facility referred to in note 31(f). The impact of this transaction has not been reflected in the financial report as at 31 July 2008.

On 17 July 2008, New Hope Coal Ltd (NHC), a 61% owned subsidiary of Washington H. Soul Pattinson & Co Ltd, announced an agreement to sell its New Saraji Coal Project to BHP Billiton Mitsubishi Alliance for \$2.45 billion, subject to regulatory approvals. On 10 September 2008, New Hope announced the completion of that sale. The impact of this transaction has not been reflected in the financial report as at 31 July 2008.

No other matters or circumstances have arisen since the end of the financial year that have significantly affected the current financial year, or may significantly affect in subsequent financial years:

- the operations of the Brickworks Group;
- the results of those operations; or
- the state of affairs of the Brickworks Group.

Likely developments and expected results of operations

The review of operations gives an indication of likely developments and the expected results of operations in subsequent financial years. Further information as to likely developments in the operations of the Group, and the expected results of those operations in subsequent financial years, has not been included in this report because inclusion of such information would be likely to result in unreasonable prejudice to the Group.

The environment

The Brickworks Group understands and accepts its responsibility for environmental protection which is integral to the conduct of its commercial operations. Brickworks' objective is to comply with all applicable environmental laws and regulations and community standards in a commercially effective way. We are committed to encouraging concern and respect for the environment and emphasising every employee's responsibility for environmental performance. During the year, in excess of \$2.4 million was spent on capital projects aimed at improving our environmental performance.

The Brickwork Group currently participates in the Energy Efficiency Opportunities Scheme (EEO), the NSW Energy Savings Action Plan Scheme, the Victorian Environment and Energy Resource Plans Scheme and the NSW Department of Environment and Climate Change Sustainability Advantage Program. Through these schemes, Brickworks have made significant reductions in energy consumption and have identified future energy reduction projects. Brickworks have also committed significant resources to collection of energy use and emissions data since 2003 and have compiled historical data back to 1995.

Managing energy use and cost is one of the key issues Brickworks will face to implement the requirements of two separate Federal Government Acts, namely The Energy Efficiency Opportunities (EEO) Act (2006) and The National Greenhouse and Energy Reporting Act 2007 (NGER). These Acts requires a whole of business approach to identify, investigate and evaluate energy efficiency opportunities. These Acts also require us to publicly report this information.

An example of a recent energy reduction project in Victoria is the recent commissioning of a state-of-the-art brick manufacturing facility known as Wollert, that is achieving annual emissions savings in the order of 30-40% per year compared with the facility that it replaced. Built at a cost of \$50 million the Wollert factory has doubled energy efficiency in terms of tonnes CO₂ emitted / tonnes product manufactured in comparison to the factory that it replaced and has led to an annual CO₂ emissions reduction of 20,000 tonnes.

The new plant is the most technically advanced and energy efficient factory ever undertaken in Australia, and is the first major capital investment of its kind in Victoria for over 40 years.

The new kiln is fuelled by natural gas, using approximately one-third less fuel than plants presently operated in Victoria by Austral Bricks. The latest scrubber technology has been installed on the kiln stack with great success, reducing emissions to well below legal limits. Electricity consumption is also significantly reduced with highly-efficient variable frequency electric drives. Unlike traditional hydraulic power-pack controls, variable frequency electric drives only use the power required to do the job. This conversion from hydraulic to electric has had the added benefit of eliminating the subsequent disposal of hundreds of litres of oil per year.

One of Brickworks continuing focal points this year is in water conservation. Facing water restrictions around the country, Brickworks has initiated water conservation projects such as the Water Recycling Program at its Horsley Park plant in New South Wales, Rochedale and Riverview plants in Queensland, the installation of water tanks and piping to capture roof run offs and the widening of on site dams, has helped us achieve our aim of being 'Water Self Sufficient'. Further to this, as an aid to the drought issues in Ballarat Victoria, our Tile manufacturing division Eureka Tiles, donated our dam water to the City of Ballarat to use on its gardens.

As a timber processor, Brickworks' wholly owned subsidiary Auswest Timbers recognises that it has environmental and social responsibilities in relation to its milling operations. Auswest source the majority of hardwood and pine timber under Supply Agreements with various state-based government departments. All State Forests are managed in line with internationally accepted principles of ecologically sustainable forest management, ensuring that these forests are conserved for current and future generations to use and enjoy. The majority of logs received are now taken from re-growth or plantation forests. This has resulted in much smaller logs being available, requiring continuous change and improvement of practices in an effort to maximise recoveries from the available log resource. Auswest is also very conscious of its responsibility in disposing of the by-products of the business in an environmentally friendly manner.

Brickworks is subject to significant environmental regulation in respect of its clay building products manufacturing and associated activities as set out below.

The Group has manufacturing facilities in each state of Australia. Each site holds a current licence and/or consent in consultation with the local environment protection authorities. Annual returns were completed where required for each licence stating the level of compliance with site operating conditions.

Queensland production facilities and mining leases operate and are licenced under the Environmental Protection Act 1994 and Regulations. Each site is regulated by Environmental Management Overview Strategy documentation or plans of operations. Various approvals have also been obtained from Brisbane City Council relating to the operation of the concrete roof tile facility.

New South Wales production facilities and mine areas are administered under the Protection of the Environment Operations Act 1997, which licences organisations and regulates the level of all discharges into the environment. Load based licencing fees are determined by the Environmental Protection Authority based on the level of discharges. The Environmental Planning and Assessment Act 1979 applies to the approval conditions of the group's activities. Some sites also operate within additional requirements imposed by local government.

Victorian operations and mining leases operate and are licenced under the EPA Act 1970, including various state environmental protection policies and regulations. Some sites have additional requirements under local authority regulations.

South Australian production facilities are licenced under the EPA Act 1993, while mining and rehabilitation plans are approved in accordance with Regulations under the Mines and Works Inspection Act 1920.

Western Australian operations operate under the Environmental Protection Act 1986. They have licences issued from a number of government agencies, including the Department of Environment and the Department of Industrial Resources. A number of our sites also operate under additional requirements issued by local shires and councils.

Tasmanian operations and mining leases operate under the Environmental Protection Act of 1973.

Independent environment auditors complete an environmental compliance audit of all factory sites annually, while operational clay mining areas are audited at least every two years. The purpose of this is to ensure compliance with all current licences and regulations and identify risks of an adverse environmental event under any other relevant legislation.

Ongoing environmental monitoring is an integral part of the operations at all factories. During the year, results of this monitoring indicated that some emissions were in excess of EPA licence limits. The Company is investigating these non-compliances, and working closely with the EPA to resolve these issues. There have been no prosecutions arising as a result of these.

Information on Directors

Robert D. Millner FAICD

Chairman

Mr R. Millner is the non-executive chairman of the Board. He first joined the Board in 1997 and was appointed chairman in 1999. He is the Chairman of the Remuneration Committee.

Other directorships:

Washington H. Soul Pattinson and Co. Ltd	Director since 1984
New Hope Corporation Ltd	Director since 1995
SP Telemedia Ltd	Director since 2000
Brickworks Investment Company Ltd	Director since 2003
Choiseul Investments Ltd	Director since 1995
Milton Group	Director since 1998
Australian Pharmaceutical Industries Ltd	Director since 2000
Souls Private Equity Ltd	Director since 2004

Michael J. Millner

Deputy Chairman

Mr M. Millner is a non-executive Director who was appointed to the Board in 1998. He is a councillor of the Royal Agricultural Society of NSW. Mr Millner is the deputy chairman of the Board, and a member of the Audit and Remuneration Committees.

Other directorships:

Washington H. Soul Pattinson & Co Ltd	Director since 1997
Ruralco Holdings Ltd	Director since 2007
SP Telemedia Ltd	Appointed 2000, Resigned 2008
Choiseul Investments Ltd	Appointed 2001, Resigned 2008
K H Foods Ltd	Appointed 1997, Resigned 2006
Ruralco Ltd	Appointed 2003, Resigned 2006

Lindsay R. Partridge BSc. Hons. Ceramic Eng; SFCDA; Dip CD

Managing Director

Mr Partridge is a Ceramic Engineer who worked extensively in all facets of the industry in Australia and the United States of America before joining The Austral Brick Company in 1985. He held various senior management positions at Austral before being appointed Chief Executive Officer in 1999, and was subsequently appointed to the Board in 2000. In 2008, Mr Partridge completed the Stanford University Executive Development Program. Mr Partridge has also had extensive industry involvement, and is currently a director of various industry bodies, including the Australian Brick and Blocklaying Training Foundation, the Clay Brick and Paver Institute, and HIA YouthBuild.

Alan J. Bentley FAICD

Director

Mr Bentley was appointed to the Board in 1995. He is a non-executive Director who joined the Company in 1984 as General Manager. In 1988 he was appointed CEO and served in this position until 1999. Mr Bentley has over 35 years experience in the manufacture and marketing of ceramic products. He is a member of the Remuneration Committee. Mr Bentley has indicated that he will retire from the Board at the conclusion of the 2008 Annual General Meeting on 25 November 2008.

Brendan P. Crotty LS, DQIT, Dip.Bus Admin, FAPI, FAICD

Director

Mr Crotty was appointed to the Board in June 2008 and is a non-executive Director. Mr Crotty brings extensive property industry expertise to the Board, including 17 years as Managing Director of Australand until his retirement in 2007. He is a member of the National Housing Supply Council, Chairman of Western Sydney Parklands Trust, a member of the University of Sydney's Infrastructure & Finance Committee, and holds a board advisory position with RSL LifeCare. He is a Member of the Audit and Remuneration Committees.

Other directorships:

Trafalgar Corporate Ltd	Appointed 2007
Australand Funds Management Ltd	Appointed 2007

Timothy V. Fairfax AM; FAICD

Director

Mr Fairfax was appointed to the Board in 1997 and is a non-executive Director. He is a member of the Audit and Remuneration Committees. He is Deputy Chancellor of the University of the Sunshine Coast, Deputy Chairman of the National Portrait Gallery, Trustee of Queensland Art Gallery, Chairman of the University of the Sunshine Coast Foundation, Board member of the Foundation for Rural and Regional Renewal, Council Member of Royal National Association Brisbane and Chairman of the Salvation Army Brisbane Advisory Board. Mr Fairfax is retiring from the Board on 25 September 2008.

Other directorships:

Rural Press Ltd	Appointed 1988, Resigned 2007
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**David N. Gilham FCIT; FAIM; FAICD
Director**

Mr Gilham was appointed to the Board of Brickworks in 2003, and is a non-executive Director. He has extensive experience in the building products and timber industries. He was previously General Manager of the Building Products Division of Futuris Corporation and Managing Director of Bristle Ltd from 1997 until its acquisition by Brickworks in 2003, and has been involved with various timber companies. He is a member of the Remuneration Committee.

Other directorships:

Australian Wine Holdings Ltd Appointed 2004, Resigned 2006

**The Hon. Robert J. Webster MAICD; MAIM; JP
Director**

Mr Webster was appointed to the Board in 2001 and is a non-executive Director. He is Senior Client Partner in Korn/Ferry International's Sydney office. He is the Chairman of the Audit Committee and a member of the Remuneration Committee.

Other directorships:

Allianz Australia Insurance Ltd Director since 1997
Viridis Investment Management Ltd Director since 2005
Investa Property Group Ltd Appointed 2006, Resigned 2007

Information on Chief Financial Officer and Company Secretary

**Alexander J. Payne B.Comm; Dip CM; FCPA; FCIS; JP
Chief Financial Officer**

Mr Payne is an accountant with significant financial experience, who joined The Austral Brick Company in 1985. In 1987 he was appointed Group Company Secretary, and was appointed Chief Financial Officer in 2003. He is a Director of Brickworks Investment Company Ltd.

**Iain H. Thompson B.Ec; CA; Grad Dip CSP; FCIS
Company Secretary**

Mr Thompson is a chartered accountant who joined The Austral Brick Company in 1996. He worked in various accounting roles within the Company before being appointed Group Company Secretary in 2003.

Meetings of Directors

During the financial year, 18 meetings of Directors (including committees) were held. Attendances were:

	DIRECTORS' MEETINGS		REMUNERATION COMMITTEE MEETINGS		AUDIT COMMITTEE MEETINGS	
	Number eligible to attend	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended
R.D. Millner	14	14	2	2		
M.J. Millner	14	13	2	2	2	2
L.R. Partridge	14	10				
A.J. Bentley	14	12	2	2		
T.V. Fairfax	14	11	2	1	2	2
D.N. Gilham	14	10	2	1		
R.J. Webster	14	12	2	2	2	2
B.P.Crotty	4	4				

As at the date of this report there is an Audit Committee and a Remuneration Committee.

Directors interests

As at 25 September 2008, Directors had the following relevant interests in Brickworks shares:

	ORDINARY SHARES	PAVERS
R.D. Millner	5,161,520	-
M.J. Millner	5,136,771	300
L.R. Partridge	133,126	-
A.J. Bentley	22,840	-
T.V. Fairfax	42,000	174
D.N. Gilham	99,850	40,000
R.J. Webster	14,713	-

As at 25 September 2008, no Director had relevant interests in debentures of, or interests in a registered scheme made available by Brickworks or a related body corporate.

As at 25 September 2008, no Director had any rights or options over shares in debentures of, or interests in a registered scheme made available by Brickworks or a related body corporate.

As at 25 September 2008, there were no contracts entered into by Brickworks or a related body corporate to which any Director is party, or under which any Director is entitled to benefit nor were there any contracts which confer any right for any Director to call for or deliver shares in, debentures of, or interests in a registered scheme made available by Brickworks or a related body corporate.

Auditor's independence declaration

The Directors received an independence declaration from the auditor, Ernst & Young. A copy has been included on page 17 of the report.

Provision of non-audit services by external auditor

During the year the external auditors, Ernst & Young, provided non-audit services to the Group, totalling \$85,000. The Directors through the Audit Committee are of the opinion that the provision of non-audit services has not compromised the independence of the auditors.

\$46,000 was paid for additional attendance at stocktakes during the year, and \$39,000 was paid for the provision of accounting advice. This advice was general in nature, relating to the interpretation and potential application of accounting standards. Brickworks management has been responsible for selecting, applying and calculating all impacts of accounting standards on the Group's financial statements.

The details of total amounts paid to the external auditors are included in note 5 to the financial statements.

Proceedings on behalf of the Company

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

The Company was not a party to any such proceedings during the year.

Indemnification of Directors and officers

The Company's Rules provide for an indemnity of Directors, executive officers and secretaries where liability is incurred in connection with the performance of their duties in those roles other than as a result of their negligence, default, breach of duty or breach of trust in relation to the Company. The Rules further provide for an indemnity in respect of legal costs incurred by those persons in defending proceedings in which judgment is given in their favour, they are acquitted or the Court grants them relief.

Since the end of the previous financial year, the Company has paid insurance premiums in respect of Directors' and officers' liability. The insured persons under those policies are defined as all Directors (being the Directors named in this Report), executive officers and any employees who may be deemed to be officers for the purposes of the Corporations Act 2001.

Rounding of Amounts

The Company has applied the relief available to it under ASIC Class Order 98/100 and accordingly, amounts in the financial report and Directors' report have been rounded off to the nearest \$1,000 where allowed under that class order.

Made in accordance with a resolution of the Directors at Sydney.

Dated 25 September 2008.

R.D. MILLNER
Director

L.R. PARTRIDGE
Director