BRICKWORKS LIMITED

Brickworks Limited
ABN. 17 000 028 526

738 - 780 Wallgrove Road
Horsley Park NSW 2175

PO Box 6550
Wetherill Park NSW 1851

Tel +61 2 9830 7800
Fax +61 2 9620 1328

info@brickworks.com.au
www.brickworks.com.au

4 June 2012

Australian Securities Exchange

Attention: **Companies Department**

BY ELECTRONIC LODGEMENT

Dear Sir/Madam,

Please find attached a letter being mailed to Brickworks' shareholders today in response to recent press reports surrounding the Company, for release to the market.

Yours faithfully,

BRICKWORKS LIMITED

IAIN THOMPSON

COMPANY SECRETARY

Further inquiries please contact:

The Hon. Robert Webster, Independent Director, Brickworks Limited, 0411 365 775

Media inquiries – David Symons, Cato Counsel, 02 9212 4666

About Brickworks

Brickworks Limited listed on the Australian Securities Exchange in 1962 and has paid a dividend every year since then. It has three divisions - Building Products, Land and Development and Investments. The Building Products division includes Australia's largest bricks producer Austral Bricks™, as well as Austral Masonry™, Bristile Roofing™, Auswest Timbers™, and Austral Precast™. The Land and Development operation maximises value from surplus land and redundant building products sites. Investments include a 42.72% holding in Washington H. Soul Pattinson & Company Limited.

BRICKWORKS
LIMITED

Brickworks Limited
ABN. 17 000 028 526

738 - 780 Wallgrove Road
Horsley Park NSW 2175

PO Box 6550
Wetherill Park NSW 1851

Tel +61 2 9830 7800
Fax +61 2 9620 1328

info@brickworks.com.au
www.brickworks.com.au

4 June 2012

Letter from the Chairman

Dear fellow shareholder,

There has been recent media coverage regarding the cross shareholding structure between Brickworks and Washington H. Soul Pattinson and Company Limited (WHSP, ASX: SOL). I write to you to outline the unanimous position of Board of Brickworks in rejecting the latest proposal to dismantle the cross shareholding (which I have referred to as the “proposal”).

As you will recall, Brickworks owns approximately 42% of WHSP - Australia's second oldest listed company. The cross shareholding means that WHSP owns approximately 45% of Brickworks. This structure was initially created in 1969 and, since then, Brickworks has grown its holding to 102.6 million shares in WHSP. These shares are now valued at approximately $1.4 billion on the ASX.

In addition to the financial benefits of the cross-shareholding for Brickworks, there are several other key advantages of the structure. Brickworks receives substantial dividends each year from WHSP ($41 million in this financial year alone). This dividend reflects the earnings streams from WHSP’s diversified investments in companies in the coal, telecom, pharmaceuticals, agriculture and financial sectors. This dividend helps to offset the cyclical earnings from Brickworks own Building Products and Land businesses, which are facing challenging times in the current economic environment.

In brief, the proposal to dismantle the cross shareholding structure requires Brickworks to dispose of all of its 102 million shares in WHSP. This requires the sale of approximately 16 million WHSP shares to Brickworks shareholders, followed by an in-specie distribution of the remaining 86 million WHSP shares to Brickworks shareholders. This structure was developed by an institutional broker based in Queensland, Hunter Green, and has been subsequently supported by Perpetual who own approximately 12% of the shares of both Brickworks and WHSP.

Following receipt of the proposal, the Board of Brickworks formed an independent committee to properly evaluate it. To avoid any perception of conflict or bias, the independent committee comprises only the directors of Brickworks who have no association with WHSP (i.e. it excluded any Directors of Brickworks who are also Directors of WHSP). The independent directors are Messrs Brendan Crotty, David Gilham, The Hon. Robert Webster and the Managing Director of Brickworks, Mr Lindsay Partridge (together we have called them the “Independent Directors”).

The Independent Directors conducted a comprehensive review of the proposal. This included taking independent advice from expert advisers in the fields of finance, law and taxation. This independent review uncovered material deficiencies in the assumptions underlying the proposal. The key negative issues arising from the proposal relate to the significant capital gains tax that would be payable by Brickworks (corporately) as a direct result of implementing the proposal. There is also the potential for Brickworks' shareholders to also pay additional tax on part of any distribution arising from the proposal.

Brickworks would be required to sell more shares in WHSP to fund the significant tax liability and reduction in debt, hence the shares available for distribution would be significantly less than the proposal assumes.

Additionally, the proposal would make Brickworks a significantly smaller company that would be required to reduce its current levels of debt by selling more shares in WHSP. Consequently, Brickworks would become a significantly smaller company that would lack the investment market appeal that we currently enjoy through the financial strength and diversity of our association with WHSP.

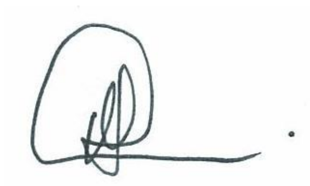
The conclusion of the Independent Directors' review is that the proposal would result in a material reduction in shareholder value from that assumed by Hunter Green. Accordingly, the Independent Directors unanimously determined that the proposal should not be pursued. The response by the Independent Directors to Perpetual outlining the detailed reasons is attached to this letter.

The results of the Independent Directors review were also made available to the full Board of Brickworks. The full Board unanimously agrees with the conclusions reached by the Independent Directors. Accordingly, Brickworks is united in rejecting the proposal to dismantle the cross shareholding as proposed.

On behalf of all the Directors, I wish to reinforce that the entire Brickworks Board is focused on growing the shareholder value that has been created since the Company was formed in 1934. The Board has taken a number of steps over the years to ensure that Brickworks has a very strong balance sheet which is underpinned by diverse sources of revenue and profit. Consistent with this philosophy, the Board will maintain this long-term and strategic approach to all the Company's activities, including the investment in WHSP.

Thank you for your continued support of Brickworks, as demonstrated at the 2011 Annual General Meeting. We look forward to a positive future together.

Yours faithfully,



Robert Millner
Chairman

BRICKWORKS
LIMITED

Brickworks Limited
ABN. 17 000 028 526

738 - 780 Wallgrove Road
Horsley Park NSW 2175

PO Box 6550
Wetherill Park NSW 1851

Tel +61 2 9830 7800
Fax +61 2 9620 1328

info@brickworks.com.au
www.brickworks.com.au

4 June 2012

Matthew Williams
Perpetual Investment Management Limited
Level 12 Angel Place
123 Pitt Street
Sydney NSW 2001

Dear Mr Williams

Thank you for your letter of 26 April 2012 to the independent directors of Brickworks which requested them to consider a proposal that Perpetual received from Hunter Green (the proposal), outlining a strategy to dismantle the cross shareholding through a sale and in-specie distribution of all the shares that Brickworks owns in Washington H. Soul Pattinson & Co Ltd (WHSP) to the shareholders of Brickworks (in-specie distribution).

Given the materiality of the change on the company if the proposal was implemented, the full Board of Brickworks has met and reviewed the proposal.

The Board also formed a separate committee comprising independent directors Messrs Gilham, Crotty, Partridge and Webster (who has been appointed by the committee to be the lead independent director) to consider the proposal (Independent Board Committee).

The Independent Board Committee has further sought third party/professional advisers to assist in the consideration of the commercial, taxation and legal issues. These advisers included PwC Australia, King & Wood Mallesons and Lion Capital.

The conclusion of this independent review process was that the in-specie distribution would result in a material reduction in current shareholder value and therefore is <u>not recommended</u> to be pursued further by Brickworks.

The key reasons for this conclusion are:

1. Any distribution or sale of WHSP shares would be subject to capital gains tax by Brickworks. This would total approximately $277 million tax paid in cash rather than the $46 million assumed by Hunter Green.
2. Brickworks does not have available cash or facilities to fund this tax payment and the debt reduction assumed by Hunter Green.

3. As a result, Brickworks would need to sell 45 million shares in WHSP, rather than the 16 million assumed by Hunter Green. This sale may also be at a greater discount than the 10% assumed in the Hunter Green proposal.
4. This would result in only 57 million WHSP shares being available to be distributed to Brickworks shareholders, rather than the 86 million assumed by Hunter Green.
5. Approximately 16% of any distribution may be an unfranked dividend that is taxable in the hands of each Brickworks shareholder, which was not considered by Hunter Green.
6. Strategically, the proposal results in Brickworks being a smaller and weakened company.
7. It appears that following the implementation of the proposal, Perpetual may need to sell some of its shares in WHSP that would negatively impact the WHSP share price (and consequently decrease the value for other Brickworks shareholder who retained any WHSP shares they received).
8. The proposal is not quick and simple to implement as Hunter Green outlined as it will require approval by Brickworks shareholders and regulatory approvals.

We have explained each of these deficiencies in detail below, using the underlying assumptions as shown in the Hunter Green analysis.

<u>Significant tax payable as a result of the proposal</u>

The proposal estimates that the only tax payable will be $46 million tax following the sale of the 16 million shares. However, independent advice from PwC confirms that Capital Gains Tax will also be payable by Brickworks on the deemed disposal of the WHSP shares distributed to the shareholders. This will be irrespective of the relative proportions of capital return and dividend in the distribution. Based on this principle applied to the Hunter Green proposal, our analysis has estimated an additional $231 million of tax above the $46 million assumed in the proposal. This is a material deficiency in the Hunter Green analysis.

Following the distribution and/or disposal of all the WHSP shares currently held by Brickworks, the company does not have the available cash or debt facilities to pay the total tax payment of $277 million.

<u>High debt results from the proposal</u>

Hunter Green assumed that the appropriate level of debt for Brickworks after it has disposed of its WHSP shares is $144 million. Assuming Brickworks has approximately $298 million of debt, the proposal would require a repayment of $155 million of debt.

When combined, the $277 million tax payment plus $155 million debt repayment totals $432 million required to be sourced to fund the implementation of the proposal. Brickworks does not have funds available to pay out $432 million in cash nor does it consider paying $432 million for tax and debt repayments to be beneficial to shareholders.

Greater number of WHSP shares are required to be sold

Using the Hunter Green approach and assumptions, it is logical to assume that:

1. The source of funding for this tax/debt payment would be an additional sale of WHSP shares; and
2. This would require an additional 29 million WHSP shares to be sold by Brickworks in addition to the 16 million shares which Hunter Green has assumed to be sold.

This would result in a total sale of 45 million WHSP shares out of the 102 million WHSP shares owned by Brickworks. This sale is required as a direct result of the proposal and only goes to fund tax and debt payments – not to Brickworks shareholders. As a result, only 57 million WHSP shares (or 56% of Brickworks current shares in WHSP) would be available for the distribution to Brickworks shareholders.

Further, the additional discount to sell such a large number of shares may not be adequately reflected in the Hunter Green proposal.

We note that under the proposal Brickworks shareholders are, in effect, being forced to buy 45 million WHSP shares offered for sale. Otherwise they will miss the projected uplift in WHSP value that has been assumed in the proposal. It is difficult to understand why existing Brickworks shareholders should be expected to purchase these WHSP shares that they effectively already own – simply to pay tax and reduce debt that is triggered only as a result of the proposal.

16% of any distribution may be an unfranked dividend

Additionally, our analysis is that Brickworks has insufficient franking credits to pay the entire in-specie distribution as fully franked dividend. This means that a component of the distribution would be an unfranked dividend. We estimate that approximately 16% of any distribution would be unfranked and would be taxable in the hands of Brickworks shareholders at their marginal tax rate. Additionally, we note that any shareholders who are on a tax rate above 30% will be liable to further tax on any franked dividend component of the distribution. This will further reduce value for some shareholders.

The proposal leaves Brickworks as a smaller and weakened company

The Independent Board Committee is concerned that on completion of the proposal, Brickworks shareholders would be left with shares in a smaller and severely weakened business. If the proposal was implemented, Brickworks would be solely a building products and property business, with significant debt. As you are aware, these parts of Brickworks' business are currently operating in very challenging economic times. The strong dividend streams that have flowed from Brickworks' investment in WHSP have insulated Brickworks from the more cyclical earnings of its building products and land operations.

Hunter Green suggests the remaining business will be worth approximately $431 million. We cannot see how the residual company could support anywhere near this level of valuation in the current economic environment and market conditions.

Additionally, if the proposal was implemented, we consider that Brickworks would be exposed to being more vulnerable to an opportunistic takeover at a low price. Given that Brickworks will retain a major shareholder (WHSP with 45% of Brickworks), then the company and its independent shareholders will have little bargaining power from which to extract maximum value. If this occurred, it would be unsatisfactory – particularly given the diminished returns following the proposed in-specie distribution.

Perpetual may need to reduce its holding

The independent directors note that, following the in-specie distribution, Perpetual will accumulate a significant holding in WHSP (estimated at more than 20%). We understand from Hunter Green's research report dated 17 November 2011 that Perpetual's "investment rules generally prohibit it from holding more than 15% of any company in which it invests". As a logical outcome, it appears that Perpetual may be required to sell down its shareholding in WHSP at some stage following the implementation of the proposal. This, other things being equal, would drive the WHSP share price down (or dampen any increase that may otherwise have occurred in an unaffected market). This would further diminish the value to Brickworks shareholders below that assumed in the proposal.

The proposal will require approval by Brickworks shareholders and regulatory approvals

The suggestion was also made that the proposal would be simple to implement. The proposal would require approval by Brickworks shareholders under a Court-ordered scheme of arrangement involving review by the Court, ASIC and ASX. ATO approval may also be required on the various components of any share distribution.

Summary conclusion

You can see from the above that significantly less value would flow to Brickworks shareholders than outlined in the proposal as determined by Hunter Green. Ultimately, the proposal represents the disposal of a significant asset of Brickworks that will, when completed, leave the company in a poor strategic position, while not ensuring shareholders receive a satisfactory value for their shareholding in Brickworks. Therefore, we trust that you understand the reasons why the Independent Board Committee has unanimously determined not to recommend the in-specie distribution to the full Board of Brickworks.

The Independent Directors would welcome the opportunity to meet with you to discuss this letter should you require any clarifications of the reasons for Brickworks conclusion.

Yours sincerely

The Hon. Robert Webster	**Brendan Crotty**	**David Gilham**	**Lindsay Partridge**
Lead Independent Director	*Independent Non-Executive Director*	*Independent Non-Executive Director*	*Managing Director*