# Washington H. Soul Pattinson and Company Limited

**A.B.N. 49 000 002 728**

# Review of Operations

# Half Year Ended 31 January 2009

## CONSOLIDATED FINANCIAL PERFORMANCE

The Profit of the Group, **after tax before non regular items**, attributable to shareholders for the half year ended 31 January 2009, was $117 million, an increase of 167% over the previous corresponding period. This increase of $73 million was mainly attributable to improved results in New Hope Corporation Limited (New Hope) in both operations and treasury and improved results in Pitt Capital Partners Pty Limited.

The Directors consider the **profit before non regular items** to be the underlying profit of the Group. Accordingly, interim and final dividends are declared and recommended based on that profit.

The Profit of the Group, **after tax and non regular items**, was $940 million, in excess of 20 times that of the previous corresponding period. The net profit on non regular items of $823 million is principally composed of the Group's $1.03 billion profit on the sale of the New Saraji coal project by New Hope and impairment of investments in associated companies of $172 million.

The recoverable amount of investments in associated companies has been assessed. The Directors consider the weighted average share price of the associates for the month of January 2009 to be the best estimate of the recoverable amount of the associates at that time. Where the carrying values of the associates exceeded the recoverable amounts, the carrying values were impaired. In the event of future increases in the recoverable amounts of the associates these impairments may be reversed. Please refer to note 3(i)(c) of the attached financial statements for further information regarding impairments.

Comparisons with the corresponding period last year are as follows:-

| | **2009 $000** | 2008 $000 | % Change |
|---|---|---|---|
| Revenue from continuing operations | **351,550** | 393,511 | - 11% |
| Profit after tax before non regular items | **117,460** | 43,987 | + 167% |
| Profit after tax and non regular items | **939,994** | 45,407 | + 1,971% |
| Share of results from associates | **(12,295)** | 15,923 | - 177% |
| | | | |
| Earnings per share | **393.9c** | 19.0c | + 1,971% |
| Interim Dividend | **13.0c** | 12.0c | + 8% |

## INTERIM DIVIDEND

Directors have declared an interim dividend of 13 cents per share in respect of the half year ended 31 January 2009, an increase of 8% over last year's interim dividend of 12 cents per share. The dividend will be fully franked and payable on 14 May 2009.

## INVESTMENTS – Share Portfolio

### Holding Company

The Company's listed investment portfolio, which includes controlled entities and associates, was valued at $2.8 billion as at 31 January 2009, compared to $3.6 billion at 31 July 2008 and $2.4 billion at 31 January 2008. This variation reflects the continuing volatility of the market as a whole.

The portfolio out performed the benchmark S&P/ASX 300 accumulation index with a return of negative 20% compared to the benchmark return of negative 27%.

Excluding controlled entities and associates, the market value of the listed investment portfolio at 31 January 2009 was $311 million, a decrease of $83 million compared to 31 July 2008. Under the Group's accounting policies $11 million of the movement in market values was reflected in the Income Statement as impairments with the balance being transferred to the asset revaluation reserve.

During the half year $36 million was invested in the equities market, $20 million of which was the result of takeovers. The main purchases were Bank of Queensland Limited, Brickworks Investment Company Limited, Commonwealth Bank of Australia, Ruralco Holdings Limited and Westpac Banking Corporation. Purchases of shares in controlled entities and associates totalled $9 million.

The net gain on disposals for the period was $3 million before tax. Proceeds from disposals totalled $21 million including shares of $20 million received as a result of takeovers. The main disposals were Huntley Investment Company Limited and St George Bank Limited, both of which resulted from takeovers.

Dividend and distribution income from the listed investment portfolio, excluding those from controlled and associated entities, was $11 million, down 1% on the same period last year.

## MAJOR CONTROLLED ENTITIES

### New Hope Corporation Limited (New Hope) – (60.9% held*)

New Hope has reported a net profit after tax from its coal mining, treasury, investments and port operations (excluding non-recurring items) of $132 million ($79 million from operations and $53 million from treasury) for the half year ended 31 January 2009 (2008: $37 million), a 262% increase over the previous corresponding period. Additionally, a non-recurring net profit after tax of $1.7 billion was reported from the sale of the New Saraji coal project.

Basic earnings per share (excluding non-recurring items) for the half year were 16.4 cents, a 261% increase on the 4.5 cents per share earned in the previous corresponding period.

* Percentage of the issued capital of the company held by the Group as at 31 January 2009.

The Directors of New Hope have declared an interim ordinary dividend of 4.75 cents per share fully franked which is payable on the 6 May 2009 to shareholders registered at 20 April 2009. Directors have previously advised that a special dividend of approximately 74 cents per share will be paid in November 2009 from proceeds received from the sale of the New Saraji coal project.

Compared to the previous corresponding period, the result for the half year ended 31 January 2009 benefited from:

- Higher coal sale prices, in AUD terms, for both export and domestic coal coupled with higher export coal sales tonnages;
- A substantially lower average AUD:USD exchange rate;
- Continued saleable coal production growth, which was up 13% to 2.4 million tonnes; and
- Higher interest income from cash on deposit resulting from the sale of the New Saraji project.

The Wetalla water project is well advanced. At the end of January 2009, approximately 39kms of the required 46.5km underground pipeline had been laid, with head end and tail end civil works progressing. On completion the Acland mine, 30kms west of Toowoomba, will have adequate water supply well into the future.

## Port Operations

New Hope's 100% owned port facility, Queensland Bulk Handling (QBH), continued to operate effectively, with 2.8 million tonnes loaded through the facility during the half year ended 31 January 2009, which was similar to the previous corresponding period. The QBH facility continues to operate essentially demurrage free.

Coal stockpile and handling capacity expansion work is continuing on schedule. At full capacity in late 2010, the port will be capable of handling up to 10 million tonnes per annum subject to shipping schedules.

## Exploration

New Hope's exploration strategy continues to be directed toward evaluating open cut and underground coking coal resources in Central Queensland; open cut thermal coal in South East Queensland and evaluating coals as potential sources of gasification and liquefaction.

## Arrow Energy Limited

As at 31 January 2009 New Hope held 120.6 million shares at a total cost of $112 million equivalent to 17.1% of the company. Arrow Energy's share price on 31 January 2009 was $2.67 valuing the New Hope investment at $322 million, representing an unrealised gain before tax of $210 million.

## Outlook

At New Acland, regulatory approval was granted in 2008 for increased production of up to 4.8 million tonnes per annum.

* Percentage of the issued capital of the company held by the Group as at 31 January 2009.

Planning is underway to take advantage of a new mining lease at the New Acland Mine, expected to be granted in 2010. When granted this lease will give New Hope the ability to incrementally increase production to 10 million tonnes per annum, subject to market conditions, rail and port capacity.

As a result of WHSP's 60.9% holding in the issued capital of the company, New Hope contributed $1.1 billion to the net profit of the Group (2008: $22 million).

**Pitt Capital Partners Pty Limited (PCP) –** (78.3% held*)

PCP is a corporate advisory firm specialising in mergers and acquisitions, strategic advice, equity capital markets, private equity, restructuring and debt advisory work.

Among other transactions completed during the half year PCP was the sole advisor to New Hope Corporation Limited in their sale of the New Saraji project to the BHP Billiton Mitsubishi Alliance.

As a result of WHSP's 78.3% interest in the issued capital of the company, PCP contributed $11 million to the net profit of the Group (2008: $0.1 million).

**INVESTMENTS – Major Associated Entities**

**Australian Pharmaceutical Industries Limited (API) –** (24.6% held*)

For the year ended 31 August 2008 API reported total revenue of $3.2 billion and a full year net profit after tax of $15 million.

Compared to API's last full 12 month period which ended 30 April 2007, total revenue has increased 22%, underlying EBIT was up 32% and reported net profit after tax increased by $27 million.

The retail division reported sales of $616 million, up 7% from the prior comparable 12 month period. Revenue from the pharmacy wholesaling division was $2.5 billion, up 22% compared to API's last full 12 month period.

API has also announced plans to bring forward its capital expenditure on supply chain improvements to generate savings earlier than first anticipated. The company expects a minimum of $10 million in savings in the 2011 financial year and to exceed the previously projected annualised savings of $18 million when completed.

API has advised that it is on target to improve on last year's first half net profit of $6 million by up to 10%. API will announce their half-year result on 29 April 2009.

As a result of WHSP's 24.6% holding in the issued capital of the company, API contributed a net profit of $2 million to the Group (2008: $0.6 million loss)

* Percentage of the issued capital of the company held by the Group as at 31 January 2009.

**Brickworks Limited (Brickworks) –** (49.5% held*)

Brickworks net profit after tax and non regular items for the half year was $255 million. Profit after tax, before non regular items was $51 million, an increase of 26% on the corresponding period last year. These results include the equity accounted profit contribution from WHSP.

The result once again highlights the strength and reliability of the Brickworks model, with earnings diversity from its three divisions of Building Products, Land and Development and Investments.

Normalised earnings per share (EPS) increased 26% to 38.3 cents per share for the half year ended 31 January 2009, from 30.4 cents per share for the half year ended 31 January 2008.

The Directors of Brickworks have declared an interim dividend of 12.5 cents in respect of the half year ended 31 January 2009. The dividend will be fully franked and payable on 19 May 2009.

Building Products

Austral Bricks™ overall brick sale volumes were down approximately 5.4% compared to the previous corresponding period, while net average selling prices increased by 2.7%.

Austral Masonry™ continues to grow with a 10.7% growth in sales volume compared to the previous half year, mainly due to the acquisition of the Smart State Blocks business at Yatala, Queensland during July 2008.

Bristile Roofing™ sale volumes declined 8.5% during the half year, with average selling prices increasing by 1.6%.

Eureka Tiles™ again achieved a significantly improved result in its import business.

Land and Development

Land and Development produced an EBIT of $12 million for the six months ended 31 January 2009. This represents a decrease of 54% over the record EBIT achieved last half year of $26 million.

The Property Trust contributed the majority of the overall profit for the half, with a total net result of $11 million from Development Profit, Trust Income and Revaluations.

Building Products Outlook

The aggressive interest rate cuts since August 2008 totalling 400 basis points and the Federal Government's increasing of its First Home Owners Grant to $21,000 for new homes have provided stimulus for the housing industry, with initial signs of increased display home traffic and increased housing finance positive lead indicators. These factors along with the lower cost of fuel and additional state government stimuli have led to improved housing affordability.

As a result of WHSP's 49.5% holding in the issued capital of the company, Brickworks contributed a $5 million regular profit to the Group (2008: $12 million). In addition, WHSP's

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share of the non regular write downs was $25 million. These contributions exclude the WHSP profit taken up by Brickworks under the equity accounting method.

**Clover Corporation Limited (Clover) –** (28.6% held*)

Clover reported a net profit after tax for the first half ended 31 December 2008 of $1.6 million (2007: $0.7 million) an increase of 135%.

Sales of $9.6 million were down 4% on the same period last year due to lower oil sales as the company moved to focus on higher margin value added products.

Despite the slight fall in sales, the net profit result was well ahead of last year due to tight control of margins and operating expenses and foreign exchange gains.

Clover directors have advised that the outlook for the company's performance in the second half of the 2009 financial year is encouraging.

On 16 March 2009 Clover announced the appointment of GTC Nutrition (GTC) as exclusive distributor and agent of their Omega³HiDHA ingredients in the Americas and Europe. GTC is a recognised leader in providing innovative customised ingredient solutions along with scientific, technical and marketing expertise in the food processing, dietary supplement and animal feeds industries.

Clover has recognised that the American and European markets represent a key opportunity for the next stage of the company's development.

As a result of WHSP's 28.6% holding in the issued capital of the company, Clover contributed a net profit of $0.5 million to the Group (2008: $0.2 million).

**Ruralco Holdings Limited (Ruralco) –** (23.5% held*)

As a result of WHSP acquiring additional shares in Ruralco on 4 June 2008, WHSP's investment in Ruralco was reclassified as an investment in an associated company. Accordingly, this investment has been equity accounted since that date.

For the year ended 30 September 2008 Ruralco reported total revenue of $886 million an increase of 18% over the prior year. Net profit after tax was $16 million an increase of 43%.

A final dividend of 13 cents per share fully franked was paid in December 2008 bringing total dividends for the year to 22 cents fully franked, an increase of 2 cents.

As a result of WHSP's 23.5% holding in the issued capital of the company, Ruralco contributed a total net profit of $1.2 million to the Group (2008: $1.1 million dividend income)

* Percentage of the issued capital of the company held by the Group as at 31 January 2009.

**SP Telemedia Limited (SPT) –** (27.5% held*)

SPT reported a net profit after tax of $5 million and earnings before interest, tax, depreciation and amortisation (EBITDA) of $44 million for the half year ended 31 January 2009.

These results, which include a full six months trading from the TPG group, represent a 264% increase on the EBITDA of $12 million achieved in the corresponding period last year, prior to the acquisition of TPG, and a 104% increase on the $2.5 million net profit after tax achieved for the same period. These results were reduced by an unrealised mark-to-market exchange rate loss before tax of $5.7m.

The Directors of SPT have declared a fully franked interim dividend of 1 cent per share, payable on 27 May 2009.

SPT's improved financial results have been driven by more than 600,000 consumer customers throughout Australia using a range of internet and voice (mobile, fixed and VoIP) services where greater than 20% growth in broadband subscribers has been achieved for the 6 months. The infrastructure used to provide these services is part of TPG-Soul's converged network that covers Australia across more than 400 points of presence. The network is built on the latest technology to support voice, data and video to capital city and regional locations, providing robust value-for-money services to business and government customers supported by a 24/7 grade one Network Operation Centre.

SPT has generated a net cash inflow from operations before interest, tax, capex and debt repayments during the half year of $64 million up from $9 million last year. This cash generation has enabled it to make a further $21 million of repayments against its debt facility in the period. It is now ahead of its debt repayment schedule by $25 million and the next compulsory debt repayment does not arise until July 2010.

With the current EBITDA run-rate in excess of $8 million monthly, the Directors of SPT have reaffirmed that the group is on track to achieve its guidance of $93 million EBITDA for the full year.

As a result of WHSP's 27.5% holding in the issued capital of the company, SPT contributed $1.4 million to the net profit of the Group (2008: $1 million, 44.5% holding).

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* Percentage of the issued capital of the company held by the Group as at 31 January 2009.