Washington H. Soul Pattinson and Company Limited

A.B.N. 49 000 002 728

Review of Operations

Half Year Ended 31 January 2011

CONSOLIDATED FINANCIAL PERFORMANCE

The Profit of the Group attributable to Shareholders, **after tax and before non-regular items**, for the half year ended 31 January 2011, was **$87.1 million**, a decrease of 10.3% from the $97.1 million for the previous corresponding period. This decrease was mainly attributable to a reduced contribution from New Hope Corporation Limited as a result of the stronger Australian dollar, increased transportation costs and wet weather.

The Profit of the Group, **after tax and non-regular items**, was **$284.9 million**, an increase of 130.9% over the $123.4 million for the previous corresponding period. The net profit on non-regular items of $197.8 million was principally attributable to the Group's gain on the sale of Arrow Energy Limited shares by New Hope Corporation Limited.

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

	2011 $000	2010 $000	% Change
Revenue from continuing operations	**384,099**	405,036	- 5.2%
Profit after tax before non-regular items	**87,102**	97,069	- 10.3%
Profit after tax and non-regular items	**284,911**	123,412	+ 130.9%
Total earnings per share	**119.4c**	51.7c	+ 130.9%
Regular earnings per share	**36.5c**	40.7c	-10.3%
Interim Dividend	**15c**	14c	+ 7.1%

INTERIM DIVIDEND

Directors have declared an interim dividend of 15 cents per share in respect of the half year ended 31 January 2011, an increase of 7.1% over last year's interim dividend of 14 cents per share. The dividend will be fully franked and payable on 12 May 2011.

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

HOLDING COMPANY

The market value of the listed equities held, including controlled entities and associates, was $4.13 billion at 31 January 2011, compared to $4.07 billion as at 31 July 2010.

Excluding controlled entities and associates, the market value of listed equities held increased by 13.3%, to $530 million from $468 million as at 31 July 2010. Under the Group's accounting policies movements in the market values of these assets are taken up in other comprehensive income or reflected within the profit for the period as impairments.

During the half year Choiseul Investments Limited (Choiseul) merged with Milton Corporation Limited (Milton) resulting in a disposal of the Company's Choiseul shares for consideration of $42.2 million and the acquisition of Milton shares for the same amount. The non-regular gain on the disposal of the Choiseul shares was $23.9 million after tax.

Other acquisitions during the period consisted of the reinvestment of dividends from associate TPG Telecom Limited totalling $4.1 million and $36.8 million invested in equities other than controlled entities and associates. The main acquisitions were Exco Resources Limited, Industrea Limited, Snowball Group Limited and Lindsay Australia Limited.

Proceeds from disposals excluding Choiseul totalled $9.0 million. These included Transurban Group, Intoll Group and Australian Agricultural Company Limited.

Dividend and distribution income from listed equities held, excluding those from controlled and associated entities, was $14.8 million, up 58.5% compared to the same period last year. Special dividends were $1.8 million (2010: nil).

Interest income for the half year totalled $11.1 million, an increase of 91.6% compared to $5.8 million for the same period last year.

CONTROLLED ENTITIES

New Hope Corporation Limited (New Hope) – 59.7% held*

New Hope has reported a net profit after tax and non-regular items of $407.4 million which included a non-recurring gain from the sale of its shares in Arrow Energy Limited of $326.3 million. The net profit after tax and before non-regular items was $81.1 million, a 27% decrease from the $111.6 million for the corresponding period last year.

Compared to the first half last year the result was impacted by:

- A higher AUD:USD exchange rate, resulting in lower export prices in AUD terms;
- Increased costs of transportation;
- Lower interest income from treasury operations following the payment of special dividends and corporate tax; and
- The impact of wet weather on production costs during December and January.

Which were partially offset by:

- Higher selling prices in USD terms; and
- Higher export sales volumes.

* Percentage of the issued capital of the company held by the Group as at 31 January 2011.

The Directors of New Hope have declared an interim dividend of 5.25 cents per share fully franked, up from 5 cents per share last year. The dividend is payable on 4 May 2011 to shareholders registered on 15 April 2011.

Mining Operations

Total clean coal production from New Hope's operations in the half year ended 31 January 2011 was 2.77 million tonnes. This was 2% lower than for the corresponding period last year. Production was negatively impacted by heavy rain in late 2010 and particularly in January 2011.

Total sales for the half year were 3.04 million tonnes. Despite the flooding and loss of the Western Rail Line in mid January 2011, this was 8% above that achieved for the same period in 2010. Export sales were 23% up at 2.74 million tonnes while domestic sales were 48% down at 0.30 million tonnes. This is as a result of a planned decrease in off take from CS Energy.

While the heavy rainfall in December 2010 and January 2011 had only limited impact on mine operations, the Western Rail Line between the New Acland Mine and Ipswich was severely damaged by flooding in mid January 2011. QR National called Force Majeure in late January and railing from New Acland has been curtailed for an approximate 2½ month period. Railing is expected to resume in late March.

In response to the above situation, New Hope has rescheduled mining operations. This will result in increased production from the West Moreton operations (from where railing is possible). Truck haulage levels from New Acland have been increased. Shipping has been rescheduled as appropriate with Force Majeure called on some customers.

The New Acland mine produced 2.25 million tonnes of clean coal in the first half ended 31 January 2011. This was a 1% increase on production compared with the same period last year. Despite the temporary loss of the Western Rail Line the mine has continued to produce at full capacity, with resultant increases in coal stocks.

The West Moreton operations, comprising Jeebropilly and New Oakleigh, produced 0.52 million tonnes of clean coal in the first half ended 31 January 2011. This was a decrease of 13% compared to the same period last year. Of this, Jeebropilly produced 0.40 million tonnes and New Oakleigh 0.12 million tonnes.

Port Operations

New Hope's 100% owned port facility, Queensland Bulk Handling (QBH), continued to ship coal at high levels. Exported coal was 3.46 million tonnes for the half year, up 6% compared to last year. QBH continues to operate essentially demurrage free.
Key activities included:

- Completion of the port expansion, under budget, in December 2010. This has increased the stockpile capacity from 377,000 tonnes to 909,000 tonnes;
- Completion of engineering upgrades to coal handling equipment; and
- Commencement of design and engineering for installation of a new sampler, upgrade of the ship loader and of electrical distribution systems.

* Percentage of the issued capital of the company held by the Group as at 31 January 2011.

QBH's operations have been impacted by reduced railings due to the temporary closure of the Western Rail Line. This will remain the situation until the rail line reopens.

Exploration

New Hope's exploration strategy includes the evaluation of both open cut and underground coking coal resources in Central Queensland and open cut thermal coal in South East Queensland.

High rainfall and flooding in some exploration areas has severely impacted exploration programs during the half year. A total of 13,784 metres of drilling was completed during the period.

Coal to Synfuels

During the period New Hope made significant progress on 2 separate technologies.

An initial 25% investment was made in Quantex Energy, a Canadian based company with interests in the research and development of direct liquefaction technologies. Subject to further technological and commercial viability, New Hope has the option to increase its investment in Quantex up to 51% at agreed prices. The detailed design for a proof of concept unit is currently underway, with the unit likely to be built in Texas, USA.

In Australia, all necessary approvals have been received to construct a proof of concept indirect liquefaction plant at the Jeebropilly mine with commissioning expected in mid 2012.

Arrow Energy Limited

During 2010, a company jointly owned by Royal Dutch Shell and PetroChina issued a proposal to acquire all shares in Arrow Energy Limited (Arrow) for $4.70 cash per share, plus a share in a new entity, Dart Energy Limited.

In July 2010 Arrow shareholders approved the demerger and acquisition schemes. The sale of New Hope's 16.7% interest in Arrow settled on 23 August 2010, with New Hope receiving $576 million from the sale. New Hope recognised an after tax profit of $326.3 million on the sale during the half year.

Northern Energy Limited

Late in 2010 New Hope made an off market takeover offer for Northern Energy Limited (NEC), a company with various thermal and coking coal development projects in Queensland and New South Wales.

Subsequent to the end of the half year New Hope increased its offer to $1.85 per NEC share, which resulted in the Directors of NEC recommending that shareholders accept New Hope's offer in the absence of a superior proposal. At the close of the offer on 9 March 2011, New Hope held approximately 80.8% of the equity in NEC.

* Percentage of the issued capital of the company held by the Group as at 31 January 2011.

Outlook

New Hope has advised that its result for the second half of 2011 will be negatively impacted by the unavailability of the Western Rail Line and the resultant flow on effect to export sales revenues from the New Acland mine.

New Hope cannot yet determine the financial impacts of the rail outage with a sufficient degree of accuracy due to the ongoing uncertainty regarding the following key variables:

- When the Western Rail Line will become operational;
- Ramp up capacity of QR National following recovery of the Western Rail Line;
- Confirmation of customer shipment schedules, especially following the recent earthquake damage and disruption to the Japanese markets; and
- Export contract pricing.

New Hope is working closely with QR National to maximise railings once the line is re-opened and to minimise the impact on the 2011 full year result.

As a result of WHSP's 59.7% holding in the issued capital of the company, New Hope contributed a net profit of $243.6 million to the Group (2010: $67.4 million).

Pitt Capital Partners 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.

As a result of WHSP's 78.3% interest in the issued capital of the company, PCP contributed a net profit of $0.1 million to the Group (2010: $0.1 million loss).

ASSOCIATED ENTITIES

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

API released its full year result on 28 October 2010. For the year ended 31 August 2010, revenue increased 4.6% to $3.7 billion and net profit after tax by 23.6% to $22.6 million.

Sales in Pharmacy Distribution grew by 4.7% compared to the same period last year. Since the end of API's financial year Pfizer Australia has announced its new direct delivery model and has ceased distribution of their prescription medicines through the traditional wholesaler system. In addition, further Pharmaceutical Benefit Scheme (PBS) reforms announced as part of the 2010 Federal Budget have seen a continuation of price reductions for PBS medicines. The impact of Pfizer's decision and PBS reform is significant, however API has stated that 'initiatives are in place to offset or mitigate any major impact on the business'.

Priceline, API's mass market health and beauty retailing division, posted retail sales growth of 4.7% and comparable store sales growth of 1.4% despite the difficult retail environment. Priceline have over 330 Priceline stores across Australia and has announced plans to accelerate growth over the next two years.

* Percentage of the issued capital of the company held by the Group as at 31 January 2011.

In January 2011, API was forced to close its Queensland Distribution Centre as flood water inundated the property. Recovery plans were activated, however, given the automation in the facility it may take up to six months to source, install and test replacement equipment. Although limited service has begun from the facility the overall effect of the Queensland floods has added further complexity to API's business.

API declared a fully franked final dividend of 1.5 cents per share which was paid on 15 December 2010.

As a result of WHSP's 24.6% holding in the issued capital of the company, API contributed a net operating profit of $3.0 million to the Group (2010: $2.9 million). Further, the Group's carrying value of API was impaired by $23.6 million to align it with the market value of the investment as at 31 January 2011.

Brickworks Limited (Brickworks) – 44.5% held*

Brickworks' net profit after tax and before non-regular items for the half year ended 31 January 2011 was $61.0 million, an increase of 7.0% from $57.0 million for the previous corresponding period. Brickworks' net profit after tax and non-regular items for the half year was up 32.8% to $117.1 million. These results include the equity accounted profit contributions from WHSP.

Revenue from the Building Products business for the half year was $303.5 million, up 15.4% from $263.0 million for the previous corresponding period while earnings before interest and tax (EBIT) increased by 2.8% to $22.4 million. The Building Products business was tracking well and the first quarter trading update reported earnings up over 15% compared to the prior period. However, extraordinary weather events in the second quarter severely affected sales and profits on the east coast. The weaker market conditions in Western Australia and Queensland also contributed to a softer result in the second quarter.

The Land and Development Division's result was a significant improvement on the previous corresponding period due to sales of surplus land.

Normalised earnings per share were 41.5 cents per share, up 2.0% from 40.7 cents per share for the same period last year.

The Directors of Brickworks have declared an increased fully franked interim dividend of 13.5 cents per share for the half year ended 31 January 2011, up 3.8% from 13 cents per share for the previous corresponding period.

<u>Building Products</u>

<u>Austral Bricks</u>™ brick sales volumes were up 5.5% in the six months to 31 January 2011 compared to the six months ended 31 January 2010, while net average selling prices increased by 1.9%.

<u>Austral Masonry</u>™ has the greatest exposure to Queensland of any of the Building Products businesses and was adversely impacted by the extraordinary weather, particularly in the second quarter. However, sales volumes were up over 20% for the period. Average selling

* Percentage of the issued capital of the company held by the Group as at 31 January 2011.

prices were able to be increased by 2.6% compared to the prior period, assisted by the introduction of a greater product range.

Bristile Roofing™ achieved another increase in earnings as sales volumes on the east coast were steady despite the adverse trading conditions. The average selling price improved by 3.0%.

Austral Precast™ provided a positive contribution to earnings in the first half. The integration and turnaround plan is already beginning to deliver results and it is anticipated that profitability will continue to improve.

Auswest Timbers™ delivered another improved result, primarily due to increased margins as the growth in average selling prices was double the increase in unit manufacturing costs.

Land and Development

The Land and Development Division recorded an EBIT of $20.6 million for the half year ended 31 January 2011, an increase of 67.5% from $12.3 million for the prior corresponding period.

Property sales contributed an EBIT of $14.9 million for the six months to 31 January 2011 and comprised the sale of two lots on the M7 Business Hub Estate. There are only 4 hectares of undeveloped land remaining in the estate from a total of 150 hectares.

Earnings from the JV Property Trusts resulted in an EBIT of $5.5 million for the half, up 37.5% from $4.0 million in the previous corresponding period.

Significant Items since Balance Sheet Date

On 18 February 2011 Brickworks purchased East Coast Masonry, a Coffs Harbour based manufacturer of concrete masonry products, for $2.5 million. The acquisition further expands the geographic footprint of Austral Masonry in New South Wales, complementing the existing businesses on the east coast.

Brickworks' sites in North Queensland sustained only minor damage from Cyclone Yasi. All sites were operational again within a few days and no employees in the region were harmed. Equally, the earthquake in Christchurch, New Zealand on 22 February 2011 did not harm any employees and caused only minor damage to Brickworks' premises.

As a result of WHSP's 44.5% holding in the issued capital of the company, Brickworks contributed a $8.7 million regular profit to the Group (2010: $7.8 million). In addition, WHSP's share of the non-regular expenses was $1.0 million (2010: $3.1 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 of $2.0 million, an increase of 2.2% compared with the same period last year.

Sales for the half year to 31 December 2010 decreased to $14.0 million (2009: $16.4 million) due mainly to a significant volume of sales ($2.0 million) being deferred, at customers'

* Percentage of the issued capital of the company held by the Group as at 31 January 2011.

requests, from December 2010 to January 2011. Whilst the sales were below the corresponding period last year they represented an increase of 54.4% on those of the half year ended 31 December 2008. The fluctuations in the growth of sales reflect the multi-year development and evaluation processes associated with infant formula applications. Sales in China continued to grow and reflect Clover's focus on developing its market position in Asia.

Expenditure on research and development increased by 20.8% in support of the expanding innovation pipeline. The research and development program has resulted in 3 new microencapsulated products that are currently under evaluation by customers. A further 3 products, demonstrating a number of new technologies, are on schedule for release in the third quarter of FY 2011.

Future Food Ingredients Pty. Limited ceased operation in October 2010 and activities have been initiated to sell the Moree based business.

Clover has stated that it is expecting a stronger sales performance in the second half of FY 2011.

As a result of WHSP's 28.6% holding in the issued capital of the company, Clover contributed a net profit of $0.6 million to the Group (2010: $0.5 million).

Ruralco Holdings Limited (Ruralco) – 23.5% held*

For the year ended 30 September 2010 Ruralco reported total revenue of $902.7 million, an increase of 7.9% over the prior year. Net profit after tax, attributable to shareholders, was $12.1 million, an increase of 42.6%.

A final dividend of 8 cents per share fully franked was paid in January 2011 bringing total dividends for the year to 16 cents per share fully franked, an increase of 33.3% over the prior year.

As a result of WHSP's 23.5% holding in the issued capital of the company, Ruralco contributed a net profit of $1.0 million to the Group (2010: $0.5 million).

TPG Telecom Limited (TPG) – 26.7% held*

For the half year ended 31 January 2011 TPG reported earnings before interest, tax, depreciation and amortisation (EBITDA) of $113.0 million and net profit after tax of $33.8 million, representing increases of 46.5% and 23.1% respectively compared to the first half last year.

These results include the first full half year contribution from PIPE Networks (PIPE) which achieved an EBITDA of $26.4 million. Excluding PIPE's contribution the Group's continuing business generated organic EBITDA growth of 26% relative to the same period last year.

During the half year, broadband subscribers increased by 27,000 and On-Net broadband and home phone bundle customers increased from 9,000 to 52,000.

* Percentage of the issued capital of the company held by the Group as at 31 January 2011.

TPG has continued to improve margins across all of its continuing business divisions whilst maintaining its established position as price and value leader in a highly competitive market place. This has been achieved by increasing leverage of its infrastructure to deliver services to customers, as well as through its ongoing commitment to disciplined cost control.

A working capital adjustment and an abnormally high final tax instalment for FY 2010 restricted TPG's debt reduction to $30 million in the half, however underlying cash flow remains very strong. The combination of earnings growth and debt repayments has reduced TPG's debt to EBITDA leverage ratio to approximately 1.4 times as at 31 January 2011.

Following its strong cash flows and earnings growth, TPG declared a fully franked interim dividend of 2.25 cents per share, payable on 24 May 2011, up from 2 cents per share last year.

TPG has upgraded its 2011 financial year EBITDA guidance from between $215 million and $225 million to between $225 million and $230 million.

As a result of WHSP's 26.7% holding in the issued capital of the company, TPG contributed a net profit of $9.2 million to the Group (2010: $7.9 million).

End of document