BRICKWORKS LIMITED

25 March 2021

Half Year 2021 Report

REVIEW OF **OPERATIONS**

Authorised for release by the Board of Brickworks Limited

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Brickworks Delivers Solid 1H21 Result

	1H2020 $m	1H2021 $m	Change
Revenue			
Building Products Australia	338	330	(2%)
Building Products North America	110	102	(7%)
Total revenue	**449**	**432**	**(4%)**
Earnings before interest and tax[1] (EBIT)			
Building Products Australia	10	16	60%
Building Products Australia EBITDA	*39*	*43*	*10%*
Building Products North America	6	4	(33%)
Building Products North America EBITDA	*13*	*13*	-
Property	89	92	3%
Investments	39	25	(36%)
Head office and other expenses	(9)	(10)	(11%)
Total EBIT	**135**	**127**	**(6%)**
Total EBITDA	**170**	**163**	**(4%)**
Finance costs	(12)	(10)	17%
Income tax	(22)	(27)	(23%)
Underlying NPAT[1] - Continuing Operations	**100**	**90**	**(10%)**
Significant items net of tax	(35)	(17)	51%
NPAT – Continuing Operations	**65**	**72**	**11%**
Discontinued operations (net of tax)	(7)	(1)	86%
Statutory NPAT	**58**	**71**	**22%**
Per share earnings and dividends			
Underlying earnings per share (cents)[1]	67	59	(12%)
Basic earnings per share (cents)	39	47	21%
Interim ordinary dividend per share (cents)	20	21	5%
Net tangible assets per share ($) (vs 31 July 2020)	14.08	13.79	(2%)

[1] This is an alternative measure of earnings that excludes significant items, which are separately disclosed in the consolidated financial statements.

Financial

Overview

- **Statutory NPAT** including significant items, up 22% to $71 million
- **Underlying NPAT from continuing operations** before significant items, down 10% to $90 million
- **Underlying EBIT from continuing operations** before significant items, down 6% to $127 million (EBITDA down 4% to $163 million)
  - **Building Products Australia EBIT** up 60% to $16 million (EBITDA $43 million)
  - **Building Products North America EBIT** down 33% to $4 million (EBITDA $13 million)
  - **Property EBIT** up 3% to $92 million, net Property Trust assets up $50 million, to $777 million
  - **Investments EBIT** down 36% to $25 million. BKW share of WHSP market value up $720 million during period, and currently valued at $2.903 billion[2]
- **Operating cash flow** of $76 million
- **Interim dividend** of 21 cents fully franked, up 1 cent or 5% (Record date 13 April 2021, payment date 28 April 2021)

Earnings

Brickworks Group (ASX: BKW) posted a Statutory Net Profit After Tax (**'NPAT'**) of $71 million for the half year ended 31 January 2021, up 22% on the previous corresponding period. Underlying NPAT from continuing operations was $90 million, down 10% on the prior period.

On sales revenue of $330 million, **Building Products Australia** Earnings Before Interest and Tax from continuing operations ('**EBIT**') was $16 million, up 60% on the previous corresponding period (EBITDA was $43 million). The higher earnings were due to a broad-based reduction in operating costs that supported improved margins across all business units. Manufacturing operations in Australia were largely unaffected by the COVID-19 pandemic.

By contrast, operations in **Building Products North America** were significantly disrupted by the pandemic, resulting in EBIT decreasing by 33% to $4 million (EBITDA was $13 million). Building activity in Glen-Gery's key non-residential markets was significantly lower, with the disruption caused by the pandemic exacerbated by uncertainty in the lead-up to the US Presidential election in November, followed by severe winter weather from December. In addition, the financial difficulties of state and federal governments resulted in many major projects being delayed or withdrawn. The lower market activity resulted in reduced like-for-like sales volume and lower plant utilisation across the network, resulting in higher unit costs.

[2] As at 23 March 2021

Property EBIT was up 3% to $92 million for the first half, driven primarily by a significant revaluation profit within the Joint Venture Industrial Property Trust[3] ('Property Trust') and the recognition of a land sales profit in relation to Oakdale West. Brickworks' share of the net asset value within the Property Trust increased by $50 million during the period and now stands at $777 million.

Investments EBIT was $25 million, down 36%, with WHSP earnings impacted by a decline in the contribution from New Hope Corporation and the telecommunications portfolio. However, the market value of Brickworks 39.4% shareholding in WHSP increased by $720 million during the period. Including a further $339 million gain since then, the current market value stands at $2.903 billion (at 23 March 2021).

The underlying **income tax** expense from continuing operations was $27 million, up from $22 million in the prior corresponding period.

Total borrowing costs decreased marginally to $10 million, including $2 million in interest costs on leases.

Significant items reduced NPAT from continuing operations by $17 million for the period. This comprised:

- Costs of $6 million in relation to WHSP significant items.
- A $3 million cost arising from the net impact of the income tax expense in respect of the equity accounted WHSP profit, offset by the impact of fully franked WHSP dividend income, adjusted for the movements in the franking account and the circular dividend impact.
- Restructuring costs of $5 million (net of tax), primarily relating to the relocation of the Austral Masonry plant in Sydney, the post upgrade commissioning of the Austral Bricks plant in Cardup (Perth) and the closure of retail outlets in North America.
- COVID-19 related costs of $2 million (net of tax), reflecting primarily the unabsorbed fixed costs in relation to manufacturing plant slowdowns, as a result of COVID-19 absenteeism in North America.
- Other costs of $1 million (net of tax)

Significant Items ($m) – Continuous Operations	**Gross**	**Tax**	**Net**
Significant items relating to WHSP	(6)	-	(6)
Income tax from the carrying value of WHSP	-	(3)	(3)
Restructuring activities	(7)	2	(5)
COVID-19 costs	(3)	1	(2)
Other costs	(1)	0	(1)
Total (Continuing Operations)	**(17)**	**1**	**(17)**

Statutory Earnings Per Share ('**EPS**') was 47 cents, up 21% on the previous corresponding period. Underlying EPS from continuing operations was 59 cents, down 12%.

[3] The Joint Venture Industrial Property Trust is a 50/50% partnership between Brickworks and Goodman Industrial Trust

Cash Flow

Total **cash flow from operating activities** was $76 million, compared to an $18 million outflow in the previous corresponding period. The prior period was adversely impacted by $71 million in higher tax payments, including $54 million in tax on the December 2018 sale of 7.9 million WHSP shares.

Capital expenditure was $61 million during the period, with significant project spend including deployment of a new enterprise resource planning (ERP) system across Australia, a new masonry plant at Oakdale East in New South Wales, a new brick plant at Horsley Park in New South Wales and a major upgrade to the Hanley brick plant in Pennsylvania.

Balance Sheet

During the half **total shareholders' equity** was down $26 million to $2.378 billion. The decline was primarily due to a decrease in the market value of WHSP's listed investments. Excluding the WHSP impact, net assets across the Group increased by $61 million.

Net tangible assets ('NTA') per share was $13.79 at 31 January 2021, down from $14.08 at 31 July 2020, primarily due to the decrease in total shareholders' equity.

Total interest-bearing debt was $594 million at the end of the period. After including cash on hand, **net debt** was $479 million, an increase of $25 million during the half. **Gearing** (net debt to equity) was up marginally to 20%.

Brickworks has $863 million in committed debt facilities, with significant headroom across all banking **covenants.** At the end of the period, bank gearing[4] as defined for covenant calculations was 16% (vs. a covenant of <40%), interest cover was 12x (vs. a covenant of >3.5x) and the leverage ratio was 1.9x (vs. a covenant of <3.5x).

Net working capital was $315 million at 31 January 2021, including **finished goods inventory** of $225 million. Finished goods inventory was up $7 million during the half, due primarily to Building Products North America inventory increasing over the winter period.

Dividends

Directors have declared a fully franked interim **dividend** of 21 cents per share for the half year ended 31 January 2021, up 5% from 20 cents. The record date for the interim dividend will be 13 April 2021, with payment on 28 April 2021.

[4] Gearing, interest cover and leverage ratio outlined here are based on the Group's banking covenant calculation (and differ from standard calculations used for these metrics, as quoted elsewhere in this report). Interest cover and leverage ratio covenants only apply if gearing exceeds 22.5%.

Sustainability

Our People

Full-time equivalent **employee** numbers were 1,937 at 31 January 2021, comprising 1,140 based in Australia and 797 in the United States.

The COVID-19 pandemic has had a significant impact on the way in which employees in large organisations such as Brickworks interact at work. Extended travel restrictions have reduced face-to-face meetings, on-site training and customer interactions. Offsetting these impacts, the transition to online communication, and the efficiency and ease of these interactions, has resulted in an increased frequency of management communications and online training.

Throughout the pandemic, Brickworks has maintained flexible workplace arrangements to ensure a range of individual employee circumstances could be accommodated. All sites have put in place strict guidelines to allow the safe return to the workplace for local employees, however the Company remains cognisant of situations where this may not be possible, such as when employees are caring for elderly or vulnerable family members.

North American operations have been particularly hard-hit by the pandemic, with around 90 COVID-19 cases amongst employees and more than half of the manufacturing workforce and other frontline staff being unable to work for various periods. Fortunately, no employees have lost their life, however many have been deeply impacted by the loss of family members and friends, and the Company passes on its condolences to all those affected.

Brickworks continues to focus on inclusion and diversity. At the end of the period, female employees made up approximately 21% of the workforce. At the Senior Executive level, female representation has increased significantly in recent years, and was 27% at the end of the period. This compares to 7% in 2015.

Safety

In Australia, there were no Lost Time **Injury** ('LTIs') during the half, and as such the Lost Time Injury Frequency Rate ('LTIFR') was 0. This pleasing performance follows the previous record low injury rate of 0.4 achieved in financial year 2020. The Total Reportable Injury Frequency Rate ('TRIFR') for the period was 13.7, down marginally from 14.0 in the prior year.

A sustained decrease in injuries across Australian operations has been achieved over the past decade, through disciplined implementation of safety management systems and procedures, together with behavioural leadership and safety training programs. These initiatives continue to be rolled out across our recently acquired operations in North America where injury rates are significantly higher than Australia.

In the North American operations, there were 5 LTI's during the half, translating to an LTIFR of 5.2, an increase from 4.2 in the prior year. The TRIFR for the period was 20.1, down from 24.3.

Environmental

Last year, Brickworks developed a new sustainability strategy, “Build for Living: Towards 2025”. This strategy focuses on the opportunity to make buildings and cities safe, resilient and sustainable. It sets a clear pathway with 15 measurable targets and commitments across the pillars: Our People, Environment, Responsible Business and Community.

As part of the sustainability strategy, the Company is working towards meeting the recommendations set out by the Task Force on Climate-Related Financial Disclosures (TCFD) by FY2022.

A ‘Sustainable Home Guide’ is being prepared for launch in 2021, highlighting how Brickworks products offer a wide range of benefits for sustainable home design. For example, our products support energy efficient design, have low material toxicity and extreme weather resistance.

During the period Brickworks continued to roll out an enhanced Environmental Management System in Australia and the United States. This is focussed on key areas such as water pollution, air pollution and odours, dust emissions, noise emissions and waste management.

Over the next decade, the Company will continue to significantly reduce emissions through investment in modern, more fuel-efficient kilns across the network, including investigations into the potential use of hydrogen and green, synthetic natural gas.

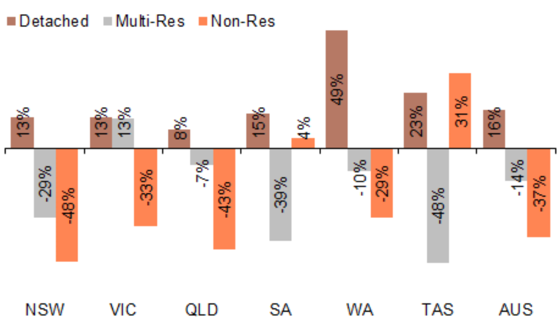
Building Products

Australia

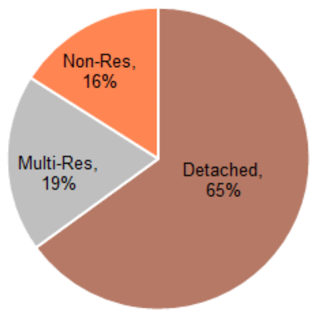
Market Conditions

Building Activity by State[5]

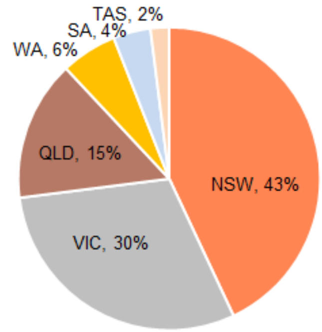
6 months to Dec 20 vs 6 months to Dec 19



Sales by Segment



Sales by Region



Building activity in Australia was mixed during the 6 months to December 2020. Despite the impacts of the pandemic, detached housing activity was robust, with a 16% increase in commencements compared to the prior corresponding period. By contrast, multi-residential and non-residential building activity decreased 14% and 37% respectively.

The pandemic has resulted in increased consumer demand for lower density living, and this is resulting in a shift towards detached housing from multi-residential alternatives. This is favourable for Austral Bricks and Bristile Roofing, due to the relatively high usage of bricks and roof tiles in detached houses. However, the full impact of the increased detached housing activity was not felt during the period, with materials usage on site typically lagging a housing commencement by 3-6 months.

Detached housing commencements increased across all states, with annualised starts of 110,500 at December 2020. Western Australia was the standout, with a 49% increase vs the prior corresponding period, albeit this comes off a 30-year low point for activity in that state.

Annualised multi-residential commencements across the country were 64,500 at December 2020, the lowest level since 2012. Of the major states, New South Wales has been hardest hit, with a 29%. Victoria was the only state to post an increase in multi-residential starts, up by 13% for the half.

The increased consumer preference for lower density housing has also resulted in a surge in regional housing demand. Detached house approvals in regional areas across the country increased by 57% for the December 2020 quarter, compared to the prior corresponding period.

Non-residential building was significantly lower across all major states in the first half, with private investment in offices, accommodation and retail all scaled back in response to the pandemic.

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[5] Detached House and Multi-residential Commencements. Non-residential value of work done. Source: BIS Oxford Economics Dec 2020 forecast. Data shown for NSW also includes ACT, to align with Brickworks sales regions.

Overview of Result

Revenue for the half year to 31 January 2021 was $330 million, down 2% on the prior corresponding period.

Early in the period, demand was relatively subdued, due in part to disruptions and uncertainty caused by the pandemic. However, demand steadily increased over the period, as consumer confidence recovered and building activity was buoyed by the various government stimulus measures put in place across the country.

$million	1H2020	1H2021	Change
Revenue	338	**330**	(2%)
EBITDA	39	**43**	10%
EBIT	10	**16**	60%
EBITDA margin	12%	**13%**	8%
EBIT margin	3%	**5%**	67%

EBIT was up 60% on the prior corresponding period to $16 million and **EBITDA** was $43 million. The higher earnings were due to a broad-based reduction in operating costs, supporting improved margins and earnings across all business units.

In addition to improved earnings, Building Products Australia has been proactive throughout the pandemic to accelerate several exciting initiatives and ensure it emerges in the strongest possible position. These initiatives have been focussed in the critical areas of new product development, capital projects, customer communications and staff training.

In September, “B20” was held, the biggest product launch event in the Company’s history, with an exciting range of over 100 innovative new bricks, roof tiles and masonry products being released. Customer feedback has been very positive and many of these products are already making a strong contribution to earnings.

A major capital investment program is underway to enhance our competitive position in key markets. Construction of a $75 million Austral Masonry plant in Sydney is well on track for commissioning later this year.

At Horsley Park, building works are now well underway for a new $130 million face brick plant at Plant 2. This facility, with a capacity of 130 million bricks per annum, will be the most advanced brick plant in the world.

In addition to investing in manufacturing operations, the Company is transforming the way it interacts with customers, with a new ERP system now rolled out in Victoria, South Australia and Tasmania. Other states will follow during the second half.

The Company has also launched a dedicated Content Channel that incorporates articles, films, podcasts, publications and an events portal to provide a better online experience for our target audiences and re-affirm Brickworks’ position as a leading voice within the building products industry.

During the pandemic, staff training has been prioritised, with extensive training programs completed across all functions of the business, using online channels.

Austral Bricks earnings increased by 4% for the six months ended 31 January 2021, with sales revenue flat at $193 million.

The result in Queensland was particularly encouraging, with an increase in sales and strong operational performance. Margins were significantly improved, following the completion of upgrade works at the Rochedale plant in the prior year. Following these upgrades, plant performance is exceeding expectations, particularly in relation to fuel efficiency and product quality. The capital investment in this business has resulted in a return to a market leading position in Queensland.

In Western Australia, the acquisition of Midland brick assets by BGC, approved by the ACCC in December, provides improved clarity in relation to the competitive environment, after many years of corporate restructuring and industry uncertainty. That said, the market remains challenging, and the competitive dynamic remains under constant review. Brickworks will not hesitate to take decisive steps to improve its position should circumstances justify.

The significant increase in housing approval data in Western Australia, dating back around 6 months, is only now translating to a strong increase in demand for bricks. During the period, upgrade works have been completed at the Cardup plant, to allow quality products to be produced at this dedicated face brick and block facility. In addition, minor upgrades to the currently mothballed Armadale plant will soon commence, with this plant dedicated to commodity internal block products. Completion of the Armadale works will allow the transition to a two-plant operating model, with each plant having a dedicated product range, and overall capacity aligned with expected market demand.

With demand across the country ramping up in recent months, all east coast manufacturing plants are now operating at capacity. Supply into Victoria is particularly tight, with other plants across the network, most notably the Golden Grove facility in South Australia, supporting supply into that state.

In February, the spare kiln at Plant 3, Horsley Park (New South Wales) was re-started, having been moth-balled throughout the recent downturn. This plant will service the local Sydney market and also alleviate some of the supply chain pressures that are building all along the east coast.

Bristile Roofing earnings were up on the prior corresponding period, despite a 4% decrease in revenue to $52 million for the half. This includes sales from the Fyshwick roof tile batten mill, operating as “Capital Battens”.

Roof tile sales volume across the country was relatively steady, with an increase in Victoria, the largest market for Bristile Roofing, offset by a decline in New South Wales. In Queensland, major hail storms in October and November resulted in increased demand in the following months. This has been followed by another major storm in south east Queensland in March.

The business has implemented a refocussed and simplified business strategy, with an emphasis on the core roof tile range. A reduction in unit manufacturing costs and prior period restructuring initiatives, resulted in improved margins during the half. In addition, improved product quality from both the Wacol and Dandenong production plants has gained positive market feedback.

In recent months, as sales volume has increased, trade shortages across the country have become an increasing issue for tile and metal roof installations. With demand expected to increase further over the second half, these constraints are likely to result in a cap on industry installation capacity and therefore sales volume.

Capital Battens recorded increased revenue and earnings, with the mill operating at capacity for the entire period.

Austral Masonry earnings were also higher, on relatively steady sales revenue of $62 million for the half.

Improved margins were driven by cost reduction initiatives, productivity improvement programs and the continued growth of premium paving and retaining wall products. The business continues to pursue diversification from traditional grey block products, and the appeal of this broader market offer has improved the competitive position within the home building, trade and retail segment.

In December operations ceased at the Prospect plant in Sydney, to be replaced by a new facility on Property Trust land at Oakdale East. Construction of the new facility continued at pace during the period, albeit the pandemic caused some on site disruptions and delays, with travel restrictions impacting the availability of trades and engineering crews, particularly those from overseas suppliers. The overall project timeline remains on track, with commissioning expected to commence in the coming months.

The new facility will be one of the most advanced masonry plants in the world. Whilst there has been some disruption and increased costs during the transition phase, once complete the new plant will deliver lower costs and a broader product range, placing the business in a very strong competitive position in this key market.

Austral Precast earnings improved on the prior corresponding period, despite a significant decline in revenue to $19 million for the half. The decrease in revenue was primarily due to the exit from operations in Western Australia. In addition, sales in New South Wales were lower, as a result of the sharp decline in multi-residential and commercial building in Sydney.

Earnings were higher on the lower revenue base, due to improved manufacturing efficiency and lower overhead costs.

Austral Precast continues to focus on a range of product development initiatives such as “Double Wall”, a cost-effective product that offers significant advantages over alternative systems such as lightweight permanent formwork solutions. Sales of this product increased significantly over the period and continues to gain market acceptance in a range of applications.

Southern Cross Cement is now providing quality, cost effective cement to Austral Masonry and Bristile Roofing operations in Brisbane, as well as to other Joint Venture shareholders.

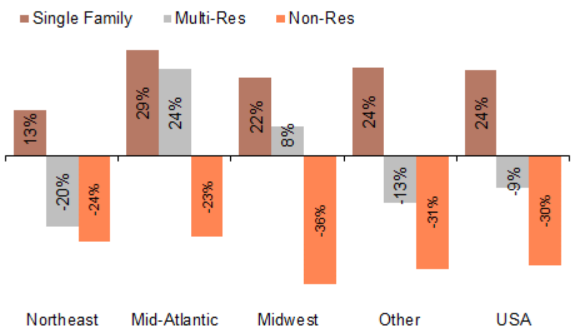
Since commissioning last financial year, well over 200,000 tonnes of cement has been received by the facility and operational performance has consistently improved. Unloading rates for recent cement shipments have exceeded the original design capacity. In addition, the higher Australian currency and lower bulk cement prices have contributed to higher returns than initial forecasts.

Building Products

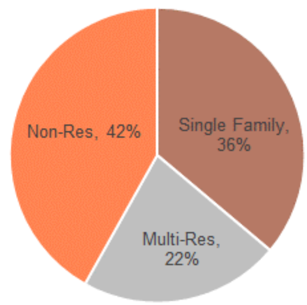
North America

Market Conditions

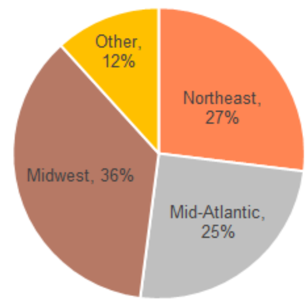
Building Activity by Region[6]
6 months to Dec 20 vs 6 months to Dec 19



Glen-Gery Sales by Segment



Glen-Gery Sales by Region



The COVID-19 pandemic has had a significant impact on building activity across the United States, with wide ranging implications across building segments and regions. Across the country, the total value of building activity commenced for the 6 months to December 2020 was down 10% compared to the prior corresponding period. A 24% increase in single family residential commencements was offset by a 9% reduction in multi-residential commencements and a 30% reduction in non-residential activity.

Glen-Gery's primary exposure is the non-residential building segment in the Northeast, Mid-Atlantic and Midwest regions. Activity in these markets was down 24%, 23% and 36% respectively, with many major projects delayed or cancelled by state authorities due to financing concerns, as a result of the COVID-19 pandemic. In addition, approvals for new projects slowed significantly in the lead-up to the US presidential election in November.

By contrast, the single-family home segment, which accounts for 36% of Glen-Gery volume, was more robust. In this segment, building activity was up 13% in the Northeast, 29% in the Mid-Atlantic and 22% in the Midwest.

[6] Single Family and Multi-residential Commencements. Non-residential value of work done. Source: Dodge Data & Analytics.

Overview of Result[7]

$million	1H2020	1H2021	Change
Revenue ($US)	75	**75**	-
EBITDA ($US)	9	**9**	-
EBIT ($US)	4	**3**	(25%)
Revenue ($AU)	110	**102**	(7%)
EBITDA ($AU)	13	**13**	-
EBIT ($AU)	6	**4**	(33%)
EBITDA margin	12%	**12%**	-
EBIT margin	6%	**3%**	(50%)

Building Products North America revenue was US$75 million (AU$102 million) for the six months to 31 January 2021, in line with the prior corresponding period.

The impact of the acquisition of Redland Brick assets in February 2020 was offset by the sharp decline in building activity in Glen-Gery's core markets, with the effects of the pandemic being compounded by severe winter weather conditions.

In response to the pandemic, various local and state government restrictions were intermittently imposed throughout the half. This included shutdowns or limitations on trades at building sites in New York, New Jersey, Massachusetts and Pennsylvania. Riots and civil unrest also had an impact in some regions, such as Minnesota.

EBITDA for the period was US$9 million (AU$13 million) and EBIT was US$3 million (AU$4 million). Earnings were impacted by lower plant utilisation and the workforce challenges associated with maintaining safe working practices in the midst of the pandemic. This challenge is highlighted by the fact that during the period there were around 90 COVID-19 cases amongst employees, and more than half of all staff were unable to work for various periods. As such, operations at many plants were impacted by staffing issues during the period.

Despite the challenges faced in the first half, the business has made strong progress on key strategic priorities over the period. In August, a new design studio in central Philadelphia was officially opened, and a number of COVID safe events have been held since the opening.

An additional studio is under construction in New York City, and is scheduled for opening in the second half. These studios will further enhance Glen-Gery's strong reputation for premium products and competitive position in the high value architectural segment.

Significant plant rationalisation activities were accelerated through the pandemic, with a total of 16 manufacturing plants transitioning to 10. This process has involved the transfer of almost 200 products to new plants and required a significant effort from technical staff across the business.

This smaller network of more efficient, modern plants also offers production flexibility, with three facilities having mothballed kilns with additional capacity. This production flexibility has long been an important competitive advantage in our Australian operations and is critical to meet market cycles and fluctuations in demand.

The plant rationalisation activities have also allowed for a more focussed capital spend program. Significant upgrade works are ongoing at the Hanley plant in Pennsylvania. Improvements to the clay preparation areas were successfully commissioned in November 2020 and will deliver improved product quality and plant efficiency. Work on the extruder and the setting line has also been completed and is currently in the commissioning phase. Upgrade works are also planned for Sergeant Bluff in Iowa and Lawrenceville in Virginia.

[7] An average exchange rate of 1AUD=0.73 USD has been used to convert earnings in 1H21 (1AUD=0.68 USD in 1H20)

Property

Overview of Property Result

Property delivered EBIT of $92 million for the first half, up 3% on the prior corresponding period.

The **Property Trust** delivered an EBIT contribution of $56 million, down 38% on the prior period.

Net trust income was up 7% to $16 million for the half. This reflects the rental contribution from one new facility at Oakdale South and rent increases across the balance of the portfolio.

$million	1H2020	1H2021	Change
Net Trust Income	15	16	7%
Revaluations	52	40	(23%)
Development Profit	24	0	NA
Property Trust	**90**	**56**	**(38%)**
Property Sales	0	38	NA
Admin and Other	(2)	(2)	-
Total	**89**	**92**	**3%**

Property Trust assets were revalued during the period and this resulted in another strong revaluation profit on established assets of $40 million. This reflects an approximate 25-basis point compression across the portfolio and follows the 25-50 basis point tightening that occurred in the prior year. This continued capitalisation rate compression over many years has crystallised the value that the Property Trust was specifically set-up to capture.

Construction of the state-of-the-art Amazon facility continued during the period. In total, the facility has a total floor area of 190,000m^2, across multiple levels, on a base floor area of 53,500m^2.

Major infrastructure works, including a roadway and bridge to access the estate were also completed during the period, allowing construction of the Coles distribution warehouse to commence in January.

In addition, development of the first stage of Oakdale East, including construction of the Austral Masonry plant, is well advanced and expected to be completed during financial year 2021.

Property sales contributed a $38 million profit during the half, primarily relating to the recognition of a portion of the previously unrealised profits associated with the prior sale of Oakdale West into the Property Trust. This follows a reclassification of several precincts within the Estate to "investment property", following the Coles and Amazon lease arrangements becoming unconditional and additional pre-lease commitments being secured.

Property administration expenses totalled $2 million, in line with the prior half. These expenses include holding costs, such as rates and taxes on properties awaiting development.

Property Trust Assets

Estate	Currently Leased					Additional	
	Asset Value ($m)	Gross Rental ($m p.a.)	WALE[8] (yrs)	Cap. Rate	GLA[9] (m^2)	Pre-Committed GLA (m^2)	Additional GLA (m^2)
M7 Hub (NSW)	167	8	2.7	5.0%	64,200	*Fully developed*	
Interlink Park (NSW)	459	26	3.0	4.8%	192,200	*Fully developed*	
Oak. Central (NSW)	633	31	4.6	4.6%	245,200	*Fully developed*	
Oak. South (NSW)	279	13	7.5	4.6%	111,300	25,100	40,000
Rochedale (QLD)	211	11	10.8	5.1%	95,600	10,600	19,600
Oak. West (NSW)	-	-	-	-	-	119,500	257,600
Oak. East (NSW)	-	-	-	-	-	16,100	19,700
Total	**1,749**	**88**	**5.1**	**4.8%**	**708,500**	**171,300**	**336,900**

As at 31 January 2021, the total value of leased assets held within the Property Trust was $1.749 billion. The annualised gross rent generated from the Property Trust is $88 million, the weighted average lease expiry is 5.1 years and the average capitalisation rate is 4.8%. There are currently no vacancies in the portfolio.

Including $410 million worth of land to be developed, the total value of assets held within the Property Trust was $2.159 billion at the end of the period. Borrowings of $605 million are held within the Property Trust, giving a total net asset value of $1.554 billion. Brickworks' 50% share of net asset value is $777 million, up by $50 million during the half. The increase in value is primarily due to the property revaluations reported during the half.

Gearing on leased assets was 35% at the end of the period and the total return on the leased property assets in the Trust, including revaluation profit, was 13% during the half.

$million	Jul 2020	Jan 2021	Change
Leased properties	1,663	1,749	5%
Land to be developed	397	410	3%
Total Property Trust assets	**2,060**	**2,159**	**5%**
Borrowings on leased properties	(606)	(605)	-
Net Property Trust assets	**1,455**	**1,554**	**7%**
Brickworks 50% share	**727**	**777**	**7%**
Rental return on leased assets[10]	6%	6%	-
Reval. return on leased assets[11]	10%	7%	(30%)
Total return on leased assets (annualised)	**16%**	**13%**	**(19%)**
Gearing on leased assets[12]	36%	35%	(3%)

[8] Weighted average lease expiry (by income)
[9] Gross Lettable Area
[10] Based on annualised Net Trust Income of $32m (2 x 1H21), divided by $572m (representing Brickworks share of leased properties, net of borrowings)
[11] Methodology as above, but assuming annualised revaluation profit of $40 million (in line with 1H21)
[12] Borrowings on leased assets / total leased assets

Investments

The EBIT from Investments was $25 million in the half year ended 31 January 2021, down 36% on the prior corresponding period. Investments consists primarily of Brickworks shareholding in WHSP, in addition to interest income on cash holdings.

Washington H. Soul Pattinson Limited ('WHSP')

ASX Code: SOL

Brickworks holds 94.3 million WHSP shares, equivalent to a 39.4% ownership interest. This shareholding in WHSP is an important source of earnings and cash flow diversification for the Company and has been a key contributor to Brickworks' success for more than four decades.

WHSP holds a significant investment portfolio in a number of listed companies including Brickworks, TPG Telecom, New Hope Corporation and Australian Pharmaceutical Industries.

The market value of Brickworks shareholding in WHSP was $2.563 billion at 31 January 2021, up $720 million for the half. Since then, the market value has risen a further $339 million and stood at $2.903 billion on 23 March 2021.

WHSP has delivered strong returns to Brickworks, with 20-year total shareholder return of 13.6% per annum (to 31 Jan 2021), 5.6% per annum ahead of the All Ordinaries Accumulation Index. Shareholder returns comfortably exceed the benchmark over one, three, five, ten and fifteen years periods.

The investment in WHSP returned an underlying contribution of $24 million for the half year ended 31 January 2021, down from $38 million in the previous corresponding period. The decline was driven by lower earnings from New Hope Corporation, and a reduced contribution from the telecommunications portfolio, due to the derecognition of TPG as an associate and start-up losses at Tuas Limited.

During the period cash dividends of $33 million were received, up 3% on the prior period.

Outlook

Building Products Australia

Detached house building approvals across the country have surged in recent months, with December quarter approvals for Australia being the highest on record. This is being driven by a range of factors including low interest rates, an increase in household savings and a range of government stimulus measures in response to the COVID-19 pandemic.

Reflecting this, our home builder customers are reporting a significant inflow of work entering the pipeline, and in recent months this has translated into a strong increase in orders for our bricks, roof tiles and paving products.

In contrast to the buoyant short-term outlook for detached housing, the level of activity in medium and high-rise developments continues to decrease, particularly in Sydney and Melbourne. Whilst this may have some impact on demand for products such as masonry blocks, this is more than offset by orders secured for major infrastructure projects such as the Sydney Metro and the Sydney Football Stadium.

Looking across the states, the largest percentage increase in demand is expected to come in Western Australia, Queensland and Tasmania, where the growth in approvals is most pronounced. In the case of Western Australia, approvals for the December 2020 quarter were up by more than 100% compared to the prior corresponding period. It is anticipated that demand will remain strong in regional areas across all major states over the medium term.

All brick and roof tile plants on the east coast are expected to run at capacity during the second half, in order to meet the increase in demand. With the potential for demand to exceed available capacity, contingency plans are also being developed to allow the supply of products from Brickworks plants in the United States.

As demand increases, it is anticipated that the growth in sales volume will be limited by the availability of trades, with brick layers in Western Australia and roof tilers across all regions, in particularly short supply. These supply chain issues are likely to have the effect of extending the existing pipeline of work, resulting in an elevated period of activity for at least a year.

However, looking beyond the current stimulus induced surge in activity, significant uncertainty remains. Whilst conditions are currently supportive for housing investment, inflationary pressures and the subsequent risk of higher interest rates appear to be increasing. In addition, fundamental questions remain in relation to the effectiveness of the vaccine roll-out, and the timing and extent of a return to immigration and full employment. It is also clear that government stimulus has brought forward a large volume of work that has the potential to leave a void once the existing pipeline is exhausted.

The ongoing completion of major projects and upgrade works will support earnings over the medium and longer term. This includes the new Austral Masonry plant at Oakdale East, to be completed in the second half, with this plant set to deliver lower unit costs and significantly broaden the product range.

Building Products North America

In the short term, mixed market conditions are expected to persist in North America. Like in Australia, there has been a strong increase in single family residential approvals across the country. Offsetting this, the key non-residential building segment is expected to remain relatively subdued in the second half.

The severe winter conditions across the northern regions of the United States persisted through February and had an adverse impact on sales volume and operations. However, there has been a strong recovery in demand during March, with improved weather and increased optimism of a stimulus led post-pandemic recovery. Daily order intake is now at pre-pandemic levels.

With extensive plant rationalisation activities undertaken to increase utilisation, and upgrades being completed at Lawrenceville and Hanley to improve efficiency, significant manufacturing cost reductions are anticipated once production volumes normalise at these plants.

In addition, price rises have been successfully implemented in February, with the increases achieved expected to exceed cost inflation and therefore contribute to improved margins.

Over the long term, North American operations are expected to deliver improved earnings and growth for many years to come, with Brickworks focussed on implementing our proven market strategy focussed on style and premium product positioning.

Property Trust

The continuing strong demand for industrial land reflects structural changes across the economy, as companies modernise their supply chains in response to consumer preferences, such as on-line shopping.

The Property Trust is ideally placed to take advantage of these trends, with well-located prime industrial land on large lot sizes. Current development activity at Oakdale in New South Wales and Rochedale in Queensland will drive growth in rent and asset value over both the short and medium term.

At **Oakdale South**, construction has commenced on a 25,100m^2 pre-committed facility ("Site 1C"), with completion expected in the current financial year. Amber Tiles will occupy approximately half of this facility. Following this, a further 40,000m^2 of gross lettable area ("GLA") will be available for development at this site.

With the four-lane access roadway to **Oakdale West** handed over to Penrith Council in January 2021, construction activity at this site will continue at unprecedented scale over the next six months. The Amazon facility is expected to be completed in September 2021, followed by the Coles facility in July 2022. Combined, these facilities will occupy 119,500m^2 of GLA. Enquiry for the remaining 257,600m^2 of GLA on the Estate has been strong, and is expected to increase further, now that civil works are well underway.

At **Oakdale East**, a 10-hectare development sold into the Property Trust in 2020, the Austral Masonry plant and additional warehouse facilities are expected to reach practical completion by the end of the current financial year. This development has a total GLA of 35,800m^2, with 16,100m^2 already pre-committed.

At **Rochedale**, approval has been secured for the development of the remaining 30,200m^2 of GLA, with Woolworths pre-committing to a 10,600m^2 facility. Construction will commence in the coming months, with practical completion expected midway through financial year 2022.

In total, there is 171,300m^2 of pre-committed GLA across the various Property Trust Estates. The completion of these facilities over the next two years will result in gross rent within the Property Trust increasing by around $38 million, representing an uplift of over 40% from the current level.

The rental income per GLA achieved for these developments is significantly greater than the current leased portfolio. This reflects the evolution towards more sophisticated and specialised facilities, incorporating features such as robotics, automation and multi-storey warehousing. The development of these advanced facilities has become a critical competitive advantage for many businesses in the new economy and will continue to support the increasing value of the Property Trust's prime industrial land.

In addition to the pre-committed facilities, a further 336,900m^2 of GLA remains available for development within the Trust and will provide further opportunity for growth in the years ahead.

Outside of the Trust, Brickworks retains other significant parcels of surplus land, suitable for development in the future. The largest site held for development is at Craigieburn in Victoria. Brickworks is currently reviewing the option of an industrial development on this land, given recent strong land growth in the Melbourne industrial market.

Investments

The diversified nature of WHSP's investments is expected to deliver steadily increasing earnings and dividends to Brickworks over the long term.