24 March 2022

Half Year 2022 Report

REVIEW OF **OPERATIONS**

Authorised for release by the Board of Brickworks Limited

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Brickworks Achieves Record 1st Half Earnings

	1H2021 $m	1H2022 $m	Change[1]
Revenue			
Building Products Australia	330	348	6%
Building Products North America	102	187	84%
Total revenue	**432**	**535**	**24%**
Earnings before interest and tax[1] (EBIT)			
Building Products Australia	16	27	66%
Building Products Australia EBITDA	*43*	*54*	*25%*
Building Products North America	4	1	(70%)
Building Products North America EBITDA	*13*	*12*	*(1%)*
Property	92	358	289%
Investments	25	73	196%
Head office and other expenses	(10)	(9)	(2%)
Total EBIT	**127**	**450**	**254%**
Total EBITDA	**163**	**488**	**200%**
Finance costs	(10)	(9)	(9%)
Income tax	(27)	(110)	298%
Underlying NPAT[2] - Continuing Operations	**90**	**330**	**269%**
Significant items and discontinued operations (net of tax)	(18)	251	NA
Statutory NPAT	**71**	**581**	**720%**
Per share earnings and dividends			
Underlying earnings per share (cents)	59	218	266%
Basic earnings per share (cents)	47	383	710%
Interim ordinary dividend per share (cents)	21	22	5%
Net tangible assets per share ($) (vs 31 July 2021)	13.88	16.72	20%

[1] All percentage changes are based on $ figures to the nearest thousand (not millions as shown in table)
[2] 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 720% to $581 million
- **Underlying NPAT from continuing operations** before significant items, up 269% to $330 million
- **Underlying EBIT from continuing operations** before significant items, up 254% to $450 million (EBITDA up 200% to $488 million)
  - **Building Products Australia EBIT** up 66% to $27 million (EBITDA $54 million)
  - **Building Products North America EBIT** down 70% to $1 million (EBITDA $12 million)
  - **Property EBIT** up 289% to $358 million. Net Property Trust assets up $349 million, to $1.260 billion
  - **Investments EBIT** up 196% to $73 million. Brickworks' share of WHSP market value down $504 million during period, to $2.576 billion
- **Operating cash flow** down 17% to $63 million
- **Interim dividend** of 22 cents fully franked, up 1 cent or 5% (Record date 12 April 2022, payment date 3 May 2022)

Earnings

Brickworks Group (ASX: BKW) posted a Statutory Net Profit After Tax (**'NPAT'**) of $581 million for the half year ended 31 January 2022, up 720% on the previous corresponding period. Underlying NPAT from continuing operations was $330 million, up 269% on the prior period.

On sales revenue of $348 million, **Building Products Australia** Earnings Before Interest and Tax from continuing operations ('**EBIT**') was $27 million, up 66% on the previous corresponding period (EBITDA was $54 million). The improved result was primarily due to an uplift in earnings from Austral Bricks, driven by strong underlying demand across all states.

Building Products North America recorded an 84% increase in revenue, to $187 million, driven by the acquisition of IBC[3] in August 2021 and increased sales to the southern residential market. However, EBIT was down 70% to $1 million (EBITDA was $12 million), with margins adversely impacted by cost pressures across the supply chain and pandemic related challenges impacting staffing levels and production. In addition, demand from the higher margin commercial and architectural segment remains weak compared to pre-pandemic levels.

[3] The acquisition comprised certain assets of Southfield Corporation, including Illinois Brick Company ("IBC").

Property EBIT was a half year record, up 289% to $358 million, driven by another strong performance from the 50/50 joint venture property trust with Goodman Group[4] ('Property Trust'). Strong revaluation and development profits were recorded during the period. This resulted in Brickworks' share of the net asset value within the Property Trust increasing by $349 million to $1,260 million. The increasing value of the Property Trust reflects a wider structural change across the economy, as companies modernise their supply chains in response to consumer preferences, such as online shopping.

Investments EBIT was $73 million, up 196%, with Washington H. Soul Pattinson ("WHSP", ASX: SOL) earnings benefitting from an increase in the contribution from New Hope Corporation and Round Oak Minerals. During the half, WHSP completed a merger with ASX listed investment company, Milton Corporation ("Milton", formerly ASX: MLT). The market value of Brickworks' shareholding in WHSP was $2.576 billion at 31 January 2022, down $504 million for the half.

The underlying **income tax** expense from continuing operations was $110 million, up from $27 million in the prior corresponding period, due to the higher earnings from Building Products and Property.

Net **borrowing costs** were down marginally to $9 million, with underlying interest cover finishing the half at a conservative 37 times.

Significant items increased NPAT by $251 million for the period. This comprised:

- A net profit of $279 million following WHSP's merger with Milton. This includes a $453 million profit on the deemed disposal of WHSP shares, offset by Brickworks share of a goodwill impairment incurred by WHSP, upon the merger.
- A $2 million profit in relation to other WHSP significant items.
- A $16 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 $6 million (net of tax), primarily relating to the relocation of the Austral Masonry plant in Sydney. In North America, costs were incurred in relation to the closure of several retail outlets and the staged decommissioning of production at the York plant.
- COVID-19 related costs of $5 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.
- Acquisition costs of $2 million (net of tax), primarily in relation to the purchase of IBC.
- Other costs of $1 million (net of tax), primarily in relation to the implementation of a new enterprise resource planning system across Australia

Statutory Earnings Per Share ('**EPS**') was 383 cents, up 710% on the previous corresponding period. Underlying EPS from continuing operations was 218 cents, up 266%.

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

Significant Items ($m)	Gross	Tax	Net
Gain on deemed disposal of WHSP upon Milton merger	*725*	*(271)*	*453*
WHSP impairment of Goodwill upon Milton merger	*(249)*	*75*	*(175)*
Net impact of WHSP merger with Milton	475	(196)	279
Other significant items relating to WHSP	2	-	2
Income tax from the carrying value of WHSP	-	(16)	(16)
Restructuring activities	(8)	2	(6)
COVID-19 costs	(7)	2	(5)
Acquisition costs	(3)	1	(2)
Other costs	(2)	0	(1)
Total (Continuing Operations)	**458**	**(207)**	**251**

Cash Flow

Total **cash flow from operating activities** was $63 million, down from $76 million in the previous corresponding period, with cash generation impacted by increased inventory within Building Products operations.

Capital expenditure was $43 million during the period, with the Company midway through a significant investment program across a range of major projects. Project spend included a new brick plant at Horsley Park (NSW), a new masonry plant at Oakdale East (NSW) and deployment of a new enterprise resource planning system.

In addition, spending on **acquisitions** amounted to $64 million, representing the IBC purchase, completed in August 2021.

Balance Sheet

During the half **total shareholders' equity** was up $509 million to $2.989 billion, primarily reflecting the increased statutory profit, offset by dividends paid to shareholders.

Net tangible assets ('NTA') per share was $16.72 at 31 January 2022, up from $13.88 at 31 July 2021, due to the increase in total shareholders' equity.

Total interest-bearing debt was $705 million at the end of the period. After including cash on hand, **net debt** was $626 million, an increase of $108 million during the half. **Gearing** (net debt to equity) remained steady at 21%.

Brickworks has $1,015 million in committed debt facilities, with significant headroom across all banking **covenants.** At the end of the period, bank gearing[5] as defined for covenant calculations was 17% (vs. a covenant of <40%), interest cover was 9.6x (vs. a covenant of >3.5x) and the leverage ratio was 3.4x (vs. a covenant of <3.5x).

[5] 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%.

Net working capital was $336 million at 31 January 2022, including **finished goods inventory** of $342 million. Excluding the impact of acquisitions, finished goods inventory was up $27 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 22 cents per share for the half year ended 31 January 2022, up 5% from 21 cents. The record date for the interim dividend will be 12 April 2022, with payment on 3 May 2022.

Sustainability

Our People

Full-time equivalent **employee** numbers were 2,240 at 31 January 2022, comprising 1,153 based in Australia and 1,087 in the United States. This includes around 225 new employees following the IBC acquisition during the period.

The past 2 years has been a challenging time for the workforce, with many staff impacted by lockdowns and working from home for long periods. Travel restrictions have reduced face-to-face meetings and meant that teams have seen less of each other, even at a time when many have needed more support. Whilst it might not always be the same, video technology has allowed Brickworks' teams to stay connected, communicate regularly and maintain personal connections.

Brickworks continues to focus on inclusion and diversity, and during the period this commitment was re-enforced through the relaunch of Brickworks cultural framework, and the addition of "inclusion" as one of seven core values.

At the end of the period, female employees made up approximately 27% of the workforce. At the Senior Executive level, female representation has increased significantly in recent years, and was 24% at the end of the period. This compares to 7% in 2015.

Safety

The Company continues to make steady progress on improving workplace safety. 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.

In the first half, the Australian operations achieved a record low reportable injury frequency rate of 7.6 and no lost time injuries were recorded.

Safety management systems continue to be rolled out across our operations in North America where injury rates are higher than Australia, and this is resulting in a steady improvement in safety performance. In North America there were 3 lost time injuries during the period. Encouragingly, the total recordable injury rate decreased to 18.7 in the first half, from 21.1 for financial year 2021.

Environmental

Brickworks continues to implement its 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 incrementally adopting the recommendations set out by the Task Force on Climate-Related Financial Disclosures (TCFD), including undertaking climate scenarios, identifying risks and responses.

Brickworks is committed to reducing carbon emissions, through continued investment in manufacturing excellence. This includes our global kiln refurbishment program to drive energy efficiency beyond international benchmarks and driving biofuels and low carbon opportunities.

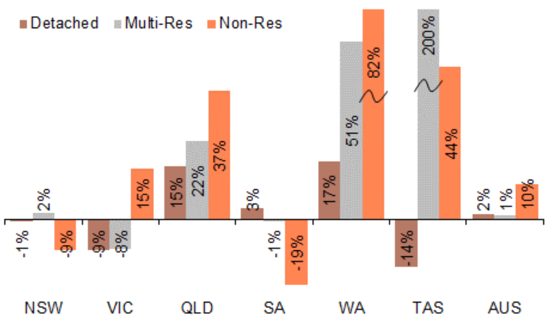
Since 2006 we have reduced our emissions by 45% through manufacturing rationalisation, capital investments into modern, fuel-efficient production processes, as well as product redesign, use of recycled material and firing our kilns with green fuels such as landfill gas.

During the half, Brickworks announced a collaboration agreement with Delorean (ASX: DEL), whereby the two companies will work together to investigate the feasibility of developing green synthetic natural gas facilities at our brick plants. If successful, each facility has the potential to displace up to 100,000 gigajoules per annum of fossil fuel gas with renewable biomethane.

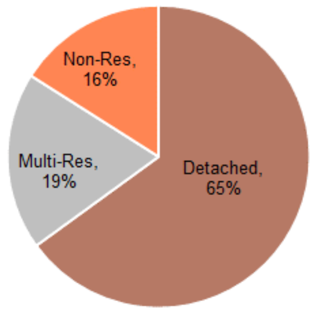
Building Products
Australia

Market Conditions

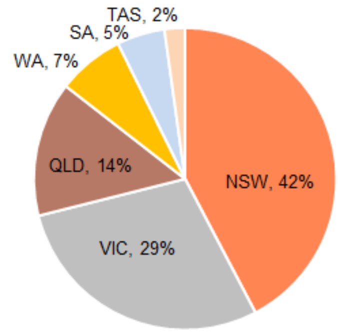
Building Activity by State[6]
6 months to Dec 21 vs 6 months to Dec 20



Sales by Segment



Sales by Region



Over the past two years, the pandemic has resulted in increased consumer demand for lower density living, and this has resulted 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.

Despite concluding around twelve months ago, the HomeBuilder program continues to underpin detached housing building activity. However, the full impact of the strong underlying demand was not fully felt during the period.

Supply chain delays have been caused due to a range of factors such as the surge in demand from the government incentive programs, shortages of some building products such as timber, and COVID-19 related issues including construction restrictions and labour absenteeism. These factors have forced some intermittent shutdowns to Building Products manufacturing plants and resulted in on-site construction timelines to extend significantly. As a result, a lot of work remains in the pipeline.

Over the past six months, approvals data indicates that multi-residential housing activity has stabilised, albeit at cyclical low levels.

Looking across the country, Western Australia and Queensland experienced the strongest conditions in the first half. Both of these states were relatively unaffected by the pandemic and have been significant beneficiaries of the HomeBuilder scheme. By contrast, conditions were more subdued in the two largest states, New South Wales and Victoria.

Non-residential building has rebounded in most states, with private investment in offices, accommodation and retail, having previously been scaled back in the first year of the pandemic.

[6] Detached House and Multi-residential Commencements. Non-residential value of work done. Source: BIS Oxford Economics Dec 2021 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 2022 was $348 million, up 6% on the prior corresponding period.

$million	1H2021	1H2022	Change
Revenue	330	**348**	6%
EBITDA	43	**54**	25%
EBIT	16	**27**	66%
EBITDA margin	13%	**16%**	19%
EBIT margin	5%	**8%**	57%

Early in the period, sales in the key Sydney and Melbourne markets were impacted by construction restrictions imposed by state governments in response to the pandemic. Once restrictions were lifted, both markets recovered well, with sales momentum increasing steadily during the half.

EBIT was up 66% on the prior corresponding period to $27 million and **EBITDA** was $54 million. Unit margins increased, supported by price rises across most business units, offsetting the impact of supply chain difficulties and higher input costs in some areas. Increased plant utilisation resulted in improved production efficiencies, with all manufacturing plants operating at close to capacity for the period (aside from pandemic related enforced shutdowns).

Throughout the pandemic, Building Products Australia has maintained a significant capital investment program, to enhance its competitive position in key markets. This includes a new brick plant and new masonry plant in Sydney. In addition to investing in manufacturing operations, the Company is transforming the way it interacts with customers, with a new ERP system now fully implemented across the country.

Austral Bricks earnings increased by 38% for the six months ended 31 January 2022, with sales revenue up 11% to $215 million. Revenue and earnings increased in all east coast states, with brick sales supported by a long backlog of detached housing projects steadily moving through the construction pipeline.

Performance was particularly strong in Queensland, where a significant uptick in building activity, market share growth and lower manufacturing costs all contributed to the improved result. Plant performance at Rochedale in Brisbane continues to be strong, with the quality and broader product range since the completion of upgrades, allowing Austral Bricks to return to a market leading position in Queensland.

New South Wales also delivered a strong uplift in earnings, despite production being heavily disrupted due to a range of pandemic related issues. In August, in response to new government restrictions on construction activity, kilns at Punchbowl and Horsley Park Plant 3 were temporarily taken off-line. Within less than two months these kilns were restarted in response to the strong underlying demand. The subsequent Omicron wave early in the new year resulted in high levels of absenteeism and resultant workforce challenges across all plants.

With demand across the country ramping up in recent months, all east coast manufacturing plants continue to operate 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 Western Australia, the sharp recovery in housing activity has resulted in a strong increase in demand. This has necessitated a ramp-up in production, amidst tight industry supply. Supply chain pressures are most acute in this state, in areas such as trucking and distribution, following many years of low activity. Despite significantly improved sales revenue, operations in this state remain loss-making and continue to be a drag on overall performance.

Construction of the new $130 million face brick facility at Horsley Park in Sydney is well underway. This plant will produce 130 million bricks per annum and will be the most advanced brick plant in the world. The completion of this plant in around 12 months' time, will allow brick operations in western Sydney to be consolidated at the Horsley Park Plant 1 and 2 site, and 75 hectares of land to be released at Oakdale East, where Plant 3 is located.

In January, 121 hectares of land at Bringelly, in southwest Sydney, was purchased. Subject to approvals, this land will be used as a clay resource to support Austral Bricks operations in Sydney, effectively replacing the existing clay resource at Oakdale East and ensuring that brick operations are not adversely impacted by the release of land for property development.

Concrete Products has recently been formed as a separate business unit within Building Products Australia, bringing together the established Austral Masonry and Austral Precast operations, and Brickworks' 33% share of the Southern Cross Cement joint venture.

Performance across this business was mixed, with improved earnings in Austral Precast more than offset by declines in Austral Masonry and Southern Cross Cement.

The uplift in *Austral Precast* earnings was driven by a range of cost reduction programs to improve production efficiency, and the continued sales growth and market acceptance of "Double Wall", a cost-effective product that offers significant advantages over alternative systems such as lightweight permanent formwork solutions.

Within *Austral Masonry*, the construction of a $75 million masonry plant in Sydney reached practical completion in July, and the commissioning process is now largely complete. This new facility, with a capacity of 220,000 tonnes per year, incorporates the latest block-making technology, and will deliver lower costs and a broader product range.

This project also includes an associated value-added facility, to create products such as polished pavers and split face retaining walls. Construction of this facility was delayed due to the restricted mobility of engineering crews and overseas based suppliers, but with international travel now re-commencing, it is on track for completion during the second half.

Whilst there has been some disruption and increased costs during the transition phase, the new plant places the business in a very strong competitive position in this key market.

During the period, exclusive supply agreements were secured for several Australian granites, commonly used by city councils across the country for large scale paving applications.

Southern Cross Cement continues to provide quality, cost-effective cement to Austral Masonry and Bristile Roofing operations in Brisbane, as well as to other Joint Venture shareholders. However, extremely high shipping costs have had an adverse impact on earnings during the period.

Bristile Roofing earnings were steady compared to the previous corresponding period, on a 4% decrease in revenue to $50 million.

The decline in revenue was attributable to lower sales volume in Victoria, the largest roof tile market in the country. In this region, demand was not fully met, due to trade shortages that remain a significant issue for both tile and metal roof installations. In all other states, revenue was higher than the prior corresponding period. Continued supply chain constraints across the country are expected to effectively cap industry installation capacity and therefore sales volume.

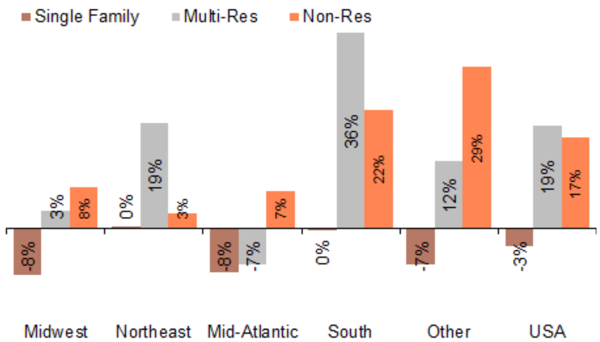
The business continues to implement a refocussed and simplified business strategy, with an emphasis on the core roof tile range, and this resulted in improved margins during the half. Improved product quality from both the Wacol and Dandenong production plants continues to generate positive market feedback.

Capital Battens recorded lower revenue and earnings, with the Fyshwick mill impacted by pandemic related shutdowns and limited supply of high-quality logs.

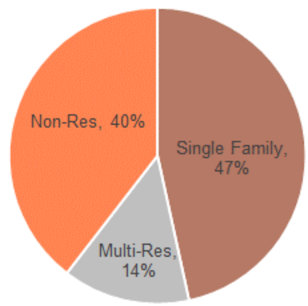
Building Products
North America

Market Conditions

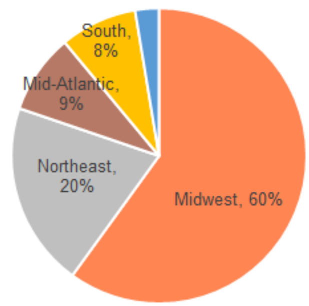
Building Activity by Region[7]
6 months to Dec 21 vs 6 months to Dec 20



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.

Building activity, particularly in the non-residential segment, was heavily impacted in the early stages of the pandemic, with many major projects delayed or cancelled by state authorities. Since then, there was a steady improvement in activity, in response to government stimulus programs and a general re-opening of the economy.

Across the country, the total value of building activity commenced for the 6 months to December 2021 was up 10% compared to the prior corresponding period. A 19% increase in multi-family residential commencements and a 17% increase in non-residential activity was partially offset by a 3% reduction in single family commencements.

The recent acquisition of IBC, together with a strategy to grow sales into the large and fast-growing southern housing market (predominantly Texas), has increased Glen-Gery's exposure to the residential segment. This segment now makes up 60% of sales, with non-residential making up the remaining 40%.

The IBC acquisition has also increased Glen-Gery's exposure to the Midwest, with this region now making up around 60% of total sales. The Midwest includes major states such as Indiana, Illinois, Iowa, Ohio, Minnesota and Michigan.

Compared to other regions across the country, building activity in the Midwest was relatively soft during the period, with single family starts down 8%, multi-residential starts up 3% and non-residential activity up by 8% (compared to the previous corresponding period).

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

Overview of Result[8]

Building Products North America revenue was $187 million (US$136 million) for the six months to 31 January 2022, up 84% on the prior corresponding period.

The uplift in revenue was driven by the acquisition of IBC in August 2021 and increased sales to the Texas residential market. Offsetting this, the key commercial construction market along the eastern seaboard has been relatively slow to recover from the pandemic related downturn, and this has adversely impacted sales into that segment.

EBITDA for the period was down marginally to $12 million (US$9 million) and EBIT was $1 million (US$1 million).

$million	1H2021	1H2022	Change
Revenue ($US)	75	**136**	82%
EBITDA ($US)	9	**9**	(2%)
EBIT ($US)	3	**1**	(70%)
Revenue ($AU)	102	**187**	84%
EBITDA ($AU)	13	**12**	(1%)
EBIT ($AU)	4	**1**	(70%)
EBITDA margin	12%	**7%**	(46%)
EBIT margin	4%	**1%**	(84%)

Margins were impacted by cost pressures across the supply chain, including a significant increase in transportation costs, amid driver shortages and truck availability issues. Market gas costs are also increasing, but fortunately the impact of this was limited, with most plants having long term supply agreements in place, at fixed prices. More broadly, labour constraints across the industry are resulting in higher wage rates to attract and retain staff. These input cost pressures resulted in an adverse cost impact of around US$3 million compared to the prior corresponding period.

A significantly higher proportion of sales to the residential segment in Texas, typically base range products at lower prices, also had an adverse impact on the average sales margin.

Pandemic related challenges persisted throughout the half, with repeated interruptions to manufacturing and distribution operations across the country, as both the Delta and Omicron strains impacted workforce availability.

Despite these challenges, the business made strong progress on key strategic priorities over the period. Plant rationalisation and upgrades have continued, with the closure of the York site and completion of extensive upgrades to the Hanley plant. The Hanley plant in Pennsylvania is focussed on premium architectural products, with the upgrades to the clay preparation area, the extruder and the setting line to deliver much improved manufacturing efficiency, product quality and a broader product range.

In November, the "G21" launch event was held, with the release of an expansive catalogue of new products, including several exciting new ranges from the Hanley plant.

A new design studio in central New York City was officially opened earlier this month by Australia's Ambassador to the United States, The Hon. Arthur Sinodinos AO. Together with the Philadelphia and Baltimore studios, these facilities will further enhance Glen-Gery's strong reputation for premium products and competitive position in the high value architectural segment.

Following the completion of the IBC acquisition in August, the integration process has been very smooth. IBC was the largest independently owned and operated brick distributor in the U.S., with 17 showrooms and distribution yards, all located in Illinois and Indiana. This is an area where Glen-Gery previously lacked a direct distribution presence, and therefore the acquisition has filled an important gap in the sales network. In addition to sales of around 70 million bricks per annum,

[8] An average exchange rate of 1AUD=0.73 USD has been used to convert earnings in 1H22 (1AUD=0.73 USD in 1H21)

IBC offers a range of complementary building materials and supplies such as stone, masonry, construction materials and tools.

The first half contribution from these stores has been in line with expectations, and brick sales have underpinned production volume at Glen-Gery's Midwest plants, which have ample capacity to accommodate additional sales growth. These plants include Marseilles in Illinois, Adel and Sergeant Bluff in Iowa, Caledonia and Iberia in Ohio, and the manufactured stone plant in Kentucky.

During the period, land sales delivered sales proceeds of US$2 million and an EBIT contribution of US$1 million, with the largest sale being surplus land surrounding the closed York site in Pennsylvania.

Acquisition of Capital Brick

Following the end of the period, Brickworks continued its vertical integration strategy, acquiring Capital Brick on 4th February. Capital Brick is a leading distributor of architectural brick and masonry products, with a single outlet in the Washington D.C. metropolitan area, and a key architectural customer of Glen-Gery. The acquisition expands Glen-Gery's existing footprint in the Maryland and Virginia markets, and increases company owned distribution locations to 27.

Property

Overview of Property Result

Property delivered EBIT of $358 million for the first half, up 289% on the prior corresponding period.

The **Property Trust** delivered an EBIT contribution of $360 million, up 543%.

Net trust income was up 7% to $17 million for the half.

Property Trust assets were revalued during the period, and this resulted in another strong revaluation profit of $228 million. This reflects an approximate 50-basis point compression of capitalisation rates across the leased portfolio and follows the 25-50 basis point tightening that occurred in the prior year.

$million	1H2021	1H2022	Change
Net Trust Income	16	17	7%
Revaluations	40	228	466%
Development Profit	0	115	NA
Property Trust	**56**	**360**	**543%**
Property Sales	38	0	NA
Admin and Other	(2)	(2)	-
Total	**92**	**358**	**289%**

In addition, the revaluation includes a $48 million profit associated with fully serviced land held within the Property Trust that is awaiting development. This reflects an increase in the underlying land value based on observable transaction prices in the area as identified in an independent valuation carried out towards the end of the period.

Going forward, fully serviced land within the Trust will be included in the revaluation process, to the extent that development has not yet commenced.

In order to meet the strong customer demand, development activity within the Property Trust has continued at pace. At Oakdale West, construction of the state-of-the-art Amazon facility reached practical completion at the end of December 2021. The completion of this facility, together with Building 1C at Oakdale South, resulted in development profits of $115 million during the period.

There were no **Property sales** during the half.

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				
	Asset Value ($m)	Gross Rental ($m p.a.)	WALE[9] (yrs)	Cap. Rate	GLA[10] (m^2)
M7 Hub (NSW)	225	9	2.8	3.8%	64,200
Interlink Park (NSW)	575	26	4.0	3.7%	192,200
Oakdale Central (NSW)	869	31	3.6	3.5%	245,200
Oakdale East 1 (NSW)	169	6	10.5	3.4%	35,900
Oakdale South (NSW)	453	16	6.6	4.0%	136,900
Rochedale (QLD)	283	12	9.7	3.9%	95,600
Oakdale West (NSW)	413	14	20.0	3.3%	53,500
Total	**2,987**	**113**	**7.0**	**3.6%**	**823,500**

As at 31 January 2022, the total value of leased assets held within the Property Trust was $2.987 billion. The annualised gross rent generated from the Property Trust is $113 million, the weighted average lease expiry is 7.0 years and the average capitalisation rate is 3.6%. There are currently no vacancies in the portfolio.

Including $508 million worth of land to be developed, the total value of assets held within the Property Trust was $3.494 billion at the end of the period. Borrowings of $974 million are held within the Property Trust, giving a total net asset value of $2.520 billion. Brickworks' 50% share of net asset value is $1.260 billion, up by $349 million during the half. The increase in value is primarily due to the property revaluations reported during the half.

Gearing on leased assets was 28% at the end of the period and the total return on the leased property assets in the Trust, including revaluation profit, was 24% during the half.

$million	Jul 2021	Jan 2022	Change
Leased properties	1,982	2,987	51%
Land under development	686	508	(26%)
Total Property Trust assets	**2,668**	**3,494**	**31%**
Borrowings	(845)	(974)	(15%)
Net Property Trust assets	**1,822**	**2,520**	**38%**
Brickworks 50% share	**911**	**1,260**	**38%**
Rental return on leased assets[11]	5%	3%	(40%)
Revaluation return on leased assets[12]	22%	21%	(5%)
Total return on leased assets (annualised)	**27%**	**24%**	**(11%)**
Gearing on leased assets[13]	32%	28%	13%

9 Weighted average lease expiry (by income)
10 Gross Lettable Area
11 Based on annualised Net Trust Income of $34m (2 x 1H22), divided by $1,081m (representing Brickworks share of leased properties, net of borrowings on leased properties)
12 Methodology as above, but assuming annualised revaluation profit of $180 million (in line with 1H22)
13 Borrowings on leased assets / total leased assets

Investments

The EBIT from Investments was $73 million in the half year ended 31 January 2022, up 196% 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 is the major shareholder in WHSP, with our initial investment dating back to 1968. 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 diversified investment portfolio of investments, and significant stakes in a number of listed companies including Brickworks, TPG Telecom and New Hope Corporation.

During the half, WHSP completed a merger with Milton, another large ASX listed investment company. The larger WHSP has net assets of around $9 billion[14] post the merger, with increased scale, diversification and liquidity to pursue additional investment opportunities.

Brickworks retains 94.3 million shares in WHSP, but due to the addition of new shareholders to the register, the ownership stake has reduced to 26.1% (previously 39.4%).

The market value of Brickworks shareholding in WHSP was $2.576 billion at 31 January 2022, down $504 million for the half.

WHSP has delivered strong returns to Brickworks, with 20-year total shareholder return of 13.0% per annum (to 31 Jan 2022), 4.8% per annum ahead of the All-Ordinaries Accumulation Index. Shareholder returns comfortably exceed the benchmark over five, ten and fifteen years periods.

The investment in WHSP returned an underlying contribution of $73 million for the half year ended 31 January 2022, up from $24 million in the previous corresponding period. In addition, the merger with Milton resulted in a one-off non-cash profit to Brickworks of $279 million (after tax).

During the period cash dividends of $34 million were received, up 3% on the prior period.

[14] As outlined in the Scheme Booklet for the WHSP and Milton merger

Outlook

Building Products Australia

Within Building Products Australia, the start of the second half has been significantly impacted by extreme wet weather along the east coast of the country. Persistent heavy rainfall and flooding has severely limited construction activity in key markets such as Sydney and Brisbane. In the case of Sydney, this reduced bricks sales volume by around 50% in the first two weeks of March.

Manufacturing operations were also impacted, with major disruptions across virtually all plants along the east coast throughout February and March.

Despite the difficult start to the half, underlying demand across the country is strong, due to a large backlog of detached house construction work still in the pipeline. With improving weather, and as pandemic related restrictions and staff absenteeism eases across most states, this healthy pipeline of work is expected to translate to strong sales for the remainder of the financial year.

In some areas, sales volume will continue to be limited by the availability of trades, with bricklayers in Western Australia and roof tilers across all regions, in particularly short supply. In addition, inflationary pressures and supply chain issues are expected to persist for the foreseeable future.

The outbreak of war in Ukraine has created additional uncertainty, with potentially wide-ranging impacts across the economy. This includes the price and availability of energy, upward pressure on inflation and interest rates, and a decline in consumer confidence. Further strain on already stressed international supply chains is already evident, with shipping rates increasing back to levels not seen since the worst period of the pandemic.

The longer-term outlook is also clouded by uncertainty around the timing and extent of a return to immigration. 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. Declining building approvals and moderating house price growth also indicate that we may be entering a period of softening construction activity.

The completion of major projects such as the Austral Masonry facility at Oakdale East and the Horsley Park brick plant will support earnings over the medium and longer-term.

Building Products North America

North American operations have also been impacted by weather in the early part of the second half, with severe winter conditions in the Midwest adversely impacting sales activity in that region. However, the order book is now at record levels and growing strongly, and this is expected to flow through to increased sales activity from April, across both the residential and higher margin commercial segments.

With extensive plant rationalisation activities undertaken to increase utilisation, and upgrades completed at Hanley and Sergeant Bluff to improve efficiency, manufacturing cost reductions are anticipated once production volumes normalise.

With the integration of IBC now complete, and the addition of Capital Brick in February, Glen-Gery's expanded network of 27 company owned distribution outlets will underpin production across the rationalised manufacturing footprint and provide longer term opportunities for further growth. In addition, design studios now established in New York, Philadelphia and Baltimore, are generating a very positive response from our customers, with several exciting project opportunities emerging, including major international developments.

As in Australia, short term market conditions in North America are significantly exposed to uncertainties in relation to the war in Ukraine and any further impacts from the COVID-19 pandemic.

However, assuming there are no major disruptions caused by these events, Brickworks expect higher earnings from North America in the second half of financial year 2022, compared to the prior corresponding period.

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

Property

JV Industrial 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**, following the completion of Site 1C during the half, a further 40,500m^2 of gross lettable area ("GLA") remains available for development on this Estate, across two facilities, known as Site 2A and Site 2B. Construction has now commenced on both facilities, with completion expected by the end of the current financial year. Yusen has pre-committed to lease 8,400m^2 (comprising part of Site 2A), with strong demand being experienced for the balance of the facilities.

Construction activity continues at **Oakdale West,** with all infrastructure now in place and the cornerstone Amazon facility handed over. An additional 182,500m^2 of GLA is pre-committed and under construction, with at least 45,000m^2 to be completed in the second half of financial year 2022. The 66,000m^2 Coles facility is then due for practical completion in the following half. Enquiry for the remaining 144,400m^2 of GLA has been strong, underpinned by record low vacancy rates across the Western Sydney industrial market.

At **Rochedale**, the remaining 30,200m^2 of GLA has been fully pre-committed and will reach practical completion within financial year 2022.

In total, there is 221,100m^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 $35 million, and leased assets increasing by around $875 million, assuming a capitalisation rate for new developments of 4.0%.

In addition to the pre-committed facilities, another 176,400m^2 of GLA remains available for development within the Trust. Based on current demand, development of this area is anticipated to be completed within around three years, and is expected to add a further $25 million in gross rent and $625 million in gross asset value.

GLA[15] (m^2) by Estate	Currently Leased	Pre-Committed	Additional Fully Serviced Land	Potential New Estates[16]
M7 Hub (NSW)	64,200	*Fully developed*		
Interlink Park (NSW)	192,200	*Fully developed*		
Oak. Central (NSW)	245,200	*Fully developed*		
Oak. East I (NSW)	35,900	*Fully developed*		
Oak. South (NSW)	136,900	8,500	32,000	
Rochedale (QLD)	95,600	30,200	-	
Oak. West (NSW)	53,500	182,500	144,000	
Oak East 2 (NSW)	-	-	-	250,000
Total GLA (m^2)	**823,500**	**221,100**	**176,400**	**250,000**
Gross Rental ($m p.a.)[17]	*113*	*35*	*~ 25 (est.)*	*~35 (est.)*
Leased Asset Value ($m)[18]	*2,987*	*~ 875 (est.)*	*~ 625 (est.)*	*~875 (est.)*

Brickworks also retains 100% ownership of additional parcels of land that are suitable for sale into the Property Trust, subject to DA approvals.

Following the completion of development at Oakdale East stage 1, planning work has commenced to facilitate development of the balance of the Oakdale East site ("**Oakdale East Stage 2**"). This area is currently home to the Austral Bricks Plant 3 site, however this facility will not be required once the new brick plant at Horsley Park is completed. An application has been lodged with Fairfield Council for development of an industrial estate at this site, with GLA of around 250,000m^2. If sold into the Property Trust and developed, this site is expected to add at least $35 million in gross rent and $875 million in gross asset value over the next 5-6 years.

The largest additional parcel of surplus land for development is at **Craigieburn** in Victoria, directly south of the Wollert factory site. Industrial development may be possible at this site over the medium term, subject to approvals. With an expected yield of around 600,000m^2 of GLA, if sold into the Trust, this site will extend the development pipeline well beyond the next five years.

Australian Operational Land

Over the past 12 months, the Company has been exploring opportunities to realise value from its portfolio of operational land and is in advanced discussions in relation to a potential transaction that would include the launch of a new Joint Venture Property Trust in partnership with Goodman, comprising a portfolio of properties tenanted by Building Products ("Operational Property Trust").

This proposed transaction currently contemplates the Company selling a selection of manufacturing sites to the Operational Property Trust. Upon completion of the sale, Brickworks would then lease back the manufacturing sites from the Operational Property Trust.

[15] Gross Lettable Area
[16] Currently 100% owned by Brickworks. Surplus land suitable for sale into the Property Trust, subject to DA approvals
[17] Rent estimates are based on the average gross rent / GLA for currently leased and pre-committed developments (~$140/m^2)
[18] Asset values assume a capitalisation rate of 4.0% for all pre-committed and future developments (vs. 3.7% for the leased portfolio)

An initial portfolio of 15 Building Products' properties, with a total gross value of around $415 million, has been identified for inclusion in the first stage of the Operational Property Trust ("Initial Stage"). The sale and lease back of these manufacturing sites will deliver gross cash proceeds of around $200 million and an estimated pre-tax profit of $260-280 million following the valuation uplift on entry into the Operational Property Trust. Around $90 million of this pre-tax profit is expected to be recognised on completion of the transaction[19].

Beyond the potential upfront pre-tax profit, the proposed transaction is not forecast to have a material impact on Brickworks ongoing earnings. This takes into account any additional rent to be paid by Building Products, any rent received by Brickworks from its' share in the Operational Property Trust, and lower interest and equipment lease costs (with any cash proceeds from the proposed transaction to be used to repay a combination of debt and equipment leases).

Brickworks considers that its discussions with Goodman are progressing well and anticipates signing a definitive agreement and completing the proposed transaction for the Initial Stage during the second half of financial year 2022 ("Expected Timeframe"). Despite this good progress there can be no assurance that any binding agreement will be reached or that the proposed transaction will occur, either within the Expected Timeframe or at any other time.

After the Initial Stage, additional properties with a similar value are earmarked for inclusion in the Operational Property Trust in the coming years, following further due diligence in relation to development potential.

Over the longer term, the partnership with Goodman will support value maximisation of Brickworks operational sites, with some properties having the potential for greater utilisation.

North American Land (Operational & Surplus)

Brickworks also owns around 3,200 hectares of land in North America, comprising operational brick sites, quarries, masonry supply centres and other surplus holdings.

During the half, a review of these land holdings was undertaken to identify key sites with future development potential and any opportunities for surplus land sales. Some sites such as York (a closed brick plant) and Mid-Atlantic (an operating brick plant), both in Pennsylvania, have received significant market interest from local property developers, at attractive valuations.

Various strategies are under consideration to realise maximum value, including outright sales of some land parcels, sale and lease back of selected operational land, and joint venture property development opportunities.

Investments

The recent merger with Milton, will provide WHSP with increased scale, diversification and liquidity to pursue additional investment opportunities, and we expect WHSP to continue to deliver superior long-term returns and consistent dividend growth well into the future.

[19] In accordance with Australian Accounting Standards, the remainder of this profit will be recognised over the life of the initial lease term of the underlying properties within the portfolio. These initial lease terms are expected to be up to 20 years.