BRICKWORKS LIMITED

**Brickworks Limited**
ABN 17 000 028 526

738 - 780 Wallgrove Road
Horsley Park NSW 2175

PO Box 6550
Wetherill Park NSW 1851

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

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

23 March 2016

Australian Securities Exchange

Attention: **Companies Department**

**BY ELECTRONIC LODGEMENT**

Dear Sir / Madam

Please find attached the Brickworks Limited Review of Results for the half year ended 31 January 2016, for immediate release to the market.

Yours faithfully

BRICKWORKS LIMITED

**Susan Leppinus**

Company Secretary

# REVIEW OF RESULTS

# 1ST HALF ENDED JANUARY 2016

**Released: 23rd March 2016**

# BRICKWORKS LIMITED - REVIEW OF RESULTS

***1st HALF ENDED JANUARY 2016***

## DIVERSIFIED PORTFOLIO PRODUCES ANOTHER STRONG RESULT

| $ MILLIONS | Jan 16 6 mths | Jan 15 6 mths | Variance % |
|---|---|---|---|
| **REVENUE** | | | |
| Building Products | 358.0 | 340.6 | 5.1 |
| Land and Development | 1.7 | 8.9 | (80.9) |
| Other | 0.3 | 0.2 | 50.0 |
| **Total** | **360.0** | **349.6** | **3.0** |
| **EBIT** | | | |
| Building Products | 32.6 | 26.1 | 24.9 |
| Land and Development | 45.4 | 38.7 | 17.3 |
| Associates & Investments | 26.8 | 30.1 | (11.0) |
| Other & H.O. | (6.1) | (4.9) | (24.5) |
| **Total EBIT (before significant items)** | **98.8** | **90.0** | **9.8** |
| **Total EBITDA (before significant items)** | **112.4** | **102.6** | **8.5** |
| Interest cost | (7.0) | (9.4) | 25.5 |
| Mark to market valuation of swaps | 0.2 | (2.9) | 106.9 |
| Underlying tax expense | (16.9) | (14.8) | (14.2) |
| **Underlying NPAT** | **75.0** | **62.8** | **19.4** |
| Significant items | 1.9 | (20.6) | 109.2 |
| **Statutory NPAT** | **76.9** | **42.2** | **82.2** |
| ***Per share Analysis*** | | | |
| Underlying earnings per share (cents) | 50.5 | 42.4 | 19.1 |
| Statutory earnings per share (cents) | 51.8 | 28.5 | 81.8 |
| **Interim ordinary dividend (cents)** | **16.0** | **15.0** | **6.7** |
| Share price (31 Jan 16) vs Jul 15 | 15.20 | 14.90 | 2.0 |
| Net tangible assets (NTA) vs Jul 15 | 10.75 | 10.59 | 1.5 |
| Share price / NTA (times) | 1.41 | 1.41 | - |

| Annual TSR | 1 Year | 3 Years | 5 Years | 10 Years | 15 Years |
|---|---|---|---|---|---|
| Brickworks Limited | 29.3% | 9.7% | 9.7% | 4.7% | 11.4% |
| All Ords Accum Index | (4.7%) | 5.5% | 5.4% | 4.7% | 7.2% |
| **Outperformance** | **34.0%** | **4.2%** | **4.3%** | **0.0%** | **4.2%** |

# DIVERSIFIED PORTFOLIO PRODUCES ANOTHER STRONG RESULT

## *Highlights*

- **Statutory NPAT including significant items, up 82.2% to $76.9 million**
- **Underlying NPAT before significant items up 19.4% to $75.0 million**
  - **Building Products EBIT up 24.9% to $32.6 million**
  - **Land and Development EBIT up 17.3% to $45.4 million**
  - **Investments EBIT down 11.0% to $26.8 million**
- **Net debt/capital employed of 12.5%, net debt $264.3 million**
- **Interim dividend of 16.0 cents fully franked, up 6.7%**
- **One year total shareholder return of 29.3%**

## *Overview*[1]

Brickworks Group (ASX: BKW) posted a statutory Net Profit After Tax ('**NPAT**') for the half year ended 31 January 2016 of $76.9 million, up 82.2% on the previous corresponding period, with the prior period adversely impacted by impairments. Underlying NPAT of $75.0 million was up 19.4% from $62.8 million for the half year ended 31 January 2015.

On record sales revenue of $358.0 million, **Building Products'** underlying earnings before interest and tax ('EBIT') was $32.6 million, up 24.9% on the previous corresponding period. Earnings across all divisions improved, through an increase in sales volume and prices, and improved production efficiencies.

**Land and Development** EBIT was $45.4 million for the first half, driven primarily by a strong revaluation profit in the Joint Venture Industrial Property Trust[2] ('Property Trust').

**Investments** EBIT, including the underlying contribution from Washington H Soul Pattinson ('WHSP'), was down 11.0% to $26.8 million. This was due primarily to the impact of low coal prices on the earnings of New Hope Corporation.

Underlying earnings per share ('**EPS'**) were 50.5 cents, up 19.1% from 42.4 cents for the previous corresponding period.

[1] Unless otherwise stated all earnings measures exclude significant items
[2] The Joint Venture Industrial Property Trust is a 50/50% partnership between Brickworks and Goodman Industrial Trust

Directors have declared a fully franked interim **dividend** of 16.0 cents per share for the half year ended 31 January 2016, up 6.7% from 15.0 cents. The record date for the interim dividend will be 12 April 2016, with payment on 3 May 2016.

**Total shareholder return** ("TSR") for the year to 31 January 2016 was 29.3%, representing a 34.0% outperformance compared to the All Ordinaries Accumulation Index of -4.7%. Over 15 years, Brickworks has delivered returns of 11.4% per annum, compared to index returns of 7.2% per annum.

## *Financial Analysis*

**Gearing** (debt to equity) was 16.2% at 31 January 2016, down from 17.8% at 31 July 2015. Total interest bearing debt decreased to $300.0 million and **net debt** declined to $264.3 million at 31 January 2016. Net debt to capital employed was 12.5% at the end of the period.

**Interest costs** were down to $7.0 million for the half on the reduced debt level. **Total borrowing costs** were $6.8 million, including the gain in mark to market valuation of swaps of $0.2 million. Interest cover was a conservative 14.2 times at 31 January 2016.

**Working capital**, excluding land held for resale, was $189.9 million at 31 January 2016, an increase of $37.0 million compared to 31 July 2015. This was due primarily to a reduction in tax provisions, together with an increase in cash and stock on hand.

During the half **finished goods inventory** increased by $3.9 million, with most factories operating through the Christmas and New Year holiday period to build stock to meet the strong order book. The finished goods inventory across the business represented 3.6 months sales at the end of the period.

Total **cash flow from operating activities** was $92.0 million, up 35.6% from $67.9 million in the previous corresponding period. Excluding the impact of the distribution following the sale of the Coles Cold Distribution Centre ("Coles CDC") including the related tax payment and the benefit of property sales in the prior period, operating cash flow was relatively steady.

Total **cash outflow from investing activities** was $9.7 million. This includes a capital return of $21.1 million from the Coles CDC sale, offset by re-investments of $13.0 million into the Property Trust and capital expenditure in Building Products and Land and Development.

Building Products **capital expenditure** increased to $18.8 million, from $16.5 million in the previous corresponding period. Stay in business capital expenditure was $13.7 million, in line with depreciation. Spend on major growth projects totalled $5.1 million, primarily consisting of upgrades to the Rochedale plant in Queensland.

The underlying **income tax** expense for the period increased to $16.9 million compared to $14.8 million for the previous corresponding period, due to the increased earnings from the combined Building Products and Land and Development Groups.

**Net tangible assets** ('NTA') per share was $10.75 at 31 January 2016, up from $10.59 at 31 July 2015 and total shareholder's equity was up $27.7 million to $1.852 billion.

**Return on equity** of underlying earnings for the half was 8.1%, up from 7.0% in the prior corresponding period. Over the longer term, Brickworks diversified corporate structure has provided stability of earnings and enabled prudent investments that have steadily built net asset value and underpinned superior long term shareholder returns.

**Significant items** increased NPAT by $1.9 million for the half year. Brickworks share of WHSP significant items for the period was $6.4 million, consisting mainly of a partial realisation of the increased value of TPG, largely offset by impairments against oil and copper assets. Other significant items include site relocation charges at Rochedale in Queensland, costs associated with the Perpetual litigation and other Building Products items such as decommissioning costs at the Bowral dome kiln in New South Wales.

| Significant Items ($m) | Gross | Tax | Net |
|---|---|---|---|
| Significant items relating to WHSP | 6.4 | (1.4) | 5.0 |
| Site relocation | (1.2) | 0.4 | (0.8) |
| Costs relating to Perpetual litigation | (0.7) | 0.2 | (0.5) |
| Other Building Products items, including restructuring | (2.6) | 0.8 | (1.8) |
| **TOTAL** | **1.9** | **0.0** | **1.9** |

***Perpetual Litigation Update***

On 20 February 2015, Brickworks announced that Perpetual and Carnegie had agreed to the cancellation of the general meeting of shareholders and Carnegie had withdrawn its cross-claim against Brickworks and WHSP. On the basis the general meeting of shareholders would be cancelled Brickworks agreed with Perpetual to put a resolution to the 2015 Annual General Meeting regarding the proposed nomination of Ms Elizabeth Crouch as a director. A resolution concerning the proposed nomination of Ms Crouch as a director was subsequently put to the 2015 Annual General Meeting but was not approved.

The cross-claim brought by Perpetual against Brickworks and WHSP is continuing. The discovery process is proceeding.

The Perpetual litigation has caused Brickworks to incur approximately $0.7 million in costs during the 6 months to 31 January 2016.

# Brickworks Building Products

## Summary of Housing Commencements – 6 Months to December 2015

| Estimated Starts[3] | Detached Houses | | | Other Res | | | Total | | |
|---|---|---|---|---|---|---|---|---|---|
| | Dec 15 | Dec 14 | Change | Dec 15 | Dec 14 | Change | Dec 15 | Dec 14 | Change |
| New South Wales[4] | 14,839 | 13,610 | **9.0%** | 19,350 | 16,525 | **17.1%** | 34,189 | 30,135 | **13.5%** |
| Queensland | 11,741 | 11,608 | **1.1%** | 11,488 | 9,920 | **15.8%** | 23,229 | 21,528 | **7.9%** |
| Victoria | 17,598 | 16,869 | **4.3%** | 15,614 | 14,589 | **7.0%** | 33,212 | 31,458 | **5.6%** |
| Western Australia | 10,491 | 12,608 | **(16.8%)** | 3,747 | 4,400 | **(14.8%)** | 14,238 | 17,008 | **(16.3%)** |
| South Australia | 3,953 | 4,146 | **(4.7%)** | 1,390 | 1,434 | **(3.1%)** | 5,343 | 5,580 | **(4.2%)** |
| Tasmania | 1,075 | 1,075 | **0.0%** | 197 | 262 | **(24.8%)** | 1,272 | 1,337 | **(4.9%)** |
| **Total Australia[5]** | **60,204** | **60,344** | **(0.2%)** | **52,164** | **47,990** | **8.7%** | **112,368** | **108,334** | **3.7%** |
| New Zealand[6] | 13,516 | 11,892 | **13.7%** | 1,559 | 1,205 | **29.4%** | 15,075 | 13,097 | **15.1%** |

Total dwelling commencements for Australia were up 3.7% to 112,368 for the six months ended 31 December 2015. This level of residential building activity is the highest on record in Australia, and has been driven by unprecedented growth in other residential commencements.

Following two years of steady growth, detached housing commencements have plateaued, with continued momentum in the major east coast states being offset by weakness in Western Australia. Although the current level of detached house building exceeds the 25 year average, it remains below recent peaks.

The strong momentum in other residential activity has continued, with commencements up a further 8.7% to a new record high of 52,164 for the six months to 31 December 2015. This level of other residential activity is more than double the levels recorded six years ago. Other residential developments now represent over 45% of all residential commencements in Australia, up from less than 30% six years ago.

Conditions in **New South Wales** (including ACT) continue to improve, with total residential commencements up 13.5% to 34,189 for the six months to 31 December 2015. Strong growth was recorded in detached houses, up 9.0% and other residential, up 17.1%.

**Queensland** experienced an increase in overall activity, with commencements up 7.9% on the prior corresponding period. Driving growth in this state was other residential activity, up 15.8%, continuing the momentum from financial year 2015.

Growth has begun to slow in **Victoria**, following the surge in activity over the past 18 months. Modest gains of 4.3% in detached houses, and 7.0% in other residential were recorded for the 6 months to 31 December 2015.

In contrast to the major east coast states, residential building activity in **Western Australia** has now passed the peak, following the record levels achieved in financial year 2015. The sharp

[3] Original data sourced from ABSCat. 8752.0 Number of Dwelling Unit Commencements by Sector, States & Territories (Sep 15 quarter). December 15 quarter estimate from BIS Shrapnel
[4] Includes ACT, to align with Brickworks divisional regions
[5] Includes Northern Territory, not shown separately on table
[6] Building Consents data sourced from Statistics New Zealand – Building Consents.

decline has been felt across both detached houses, down 16.8% and other residential, down 14.8% on the prior corresponding period.

Continued growth in **New Zealand** was also recorded, with building consents for the year ended 31 December 2015 increasing by 15.1% compared to the prior corresponding period.

The value of approvals in the **non residential** sector in Australia increased by 10.3% to $16.789 billion for the six months to 31 December 2015. Within the non residential sector, **Commercial** building approvals decreased by 2.2% to $5.628 billion for the period and **Industrial** building approvals increased 3.2% to $2.204 billion.

## Building Products' Results in Detail

| Half Year Ended January | | 2016 | 2015 | Change % |
|---|---|---|---|---|
| Revenue | $mill | 358.0 | 340.6 | 5.1 |
| EBITDA | $mill | 46.2 | 38.8 | 19.1 |
| EBIT | $mill | 32.6 | 26.1 | 24.9 |
| Capital Expenditure | $mill | 18.8 | 16.5 | 13.9 |
| EBITDA margin | % | 12.9 | 11.4 | 13.2 |
| EBIT margin | % | 9.1 | 7.7 | 18.2 |
| Capital Employed | $mil | 872.9 | 837.4 | 4.2 |
| Net Tangible Assets | $mil | 620.8 | 568.5 | 9.2 |
| Return on Capital Employed | % | 7.5 | 6.2 | 21.0 |
| Return on Net Tangible Assets | % | 10.5 | 9.2 | 14.1 |
| FTE Employees[7] (vs. Jul 15) | | 1,464 | 1,468 | (0.3) |
| Safety (TRIFR)[8] (vs. Jul 15) | | 19.7 | 22.5 | (12.4) |
| Safety (LTIFR)[9] (vs. Jul 15) | | 1.4 | 2.0 | (30.0) |

**Revenue** for the half year to 31 January 2016 was up 5.1% to a record $358.0 million, with particularly strong sales growth recorded in Austral Bricks and Bristile Roofing.

**EBIT** was $32.6 million, up 24.9% on the prior corresponding period, and **EBITDA** was $46.2 million. Improved earnings were achieved on the back of an increase in sales volume, strong price increases and improved production efficiencies that enabled manufacturing costs to be well contained.

The increase in sales volume delivered a positive EBIT impact of $2.4 million compared to the prior corresponding period. Significant volume increases in most east coast operations was partially offset by declines in Western Australia.

Pricing outcomes were generally positive, with a weighted average increase of 4.0% achieved[10], contributing an EBIT uplift of $11.6 million compared to the prior corresponding period. Strong price increases were achieved by Austral Bricks in all states except Western Australia, and in Bristile Roofing on both the east and west coast. Austral Masonry and Auswest Timbers also recorded modest gains, however pricing in Austral Precast decreased due to a change in product mix and strong competition, particularly in Western Australia.

Unit production costs improved in most divisions, primarily due to an increase in production volume, with most plants operating through the Christmas holiday period in order to replenish stock levels and meet the strong order book. However this was offset by higher installation costs in Bristile Roofing, where strong demand on the east coast is resulting in trade shortages and increased installation rates. The net impact was a $0.9 million increase in unit cost of sales compared to the previous corresponding period.

[7] Excludes casual employees
[8] Total Reportable Injury Frequency Rate (TRIFR) measures the total number of reportable injuries per million hours worked
[9] Lost Time Injury Frequency Rate (LTIFR) measures the number of lost time injuries per million hours worked
[10] Excluding product "tolling" arrangements and export volume

Sales and overhead costs were well controlled, remaining steady as a percentage of sales compared to the prior corresponding period. A $3.2 million increase in these costs was driven by higher selling support and information technology costs to better support our customer requirements. During the period the company continued its investment in advertising to enhance brand awareness, with a high fashion branding campaign and the roll out of CBD design studios across all major capitals, set to deliver ongoing benefits in the years ahead.

Despite the improved earnings in the six months to 31 January 2016, Building Products' Return on Capital Employed ('**ROCE**') of 7.5% remains below internal targets. Excluding goodwill and other intangible assets of $252.1 million, the underlying Return on Net Tangible Assets ('**RONTA**') was 10.5%, up from 9.2% in the prior year.

Full time employees decreased by 4 during the half, taking the total number to 1,464. This reduction in employees reflects Brickworks' on-going commitment to maintaining a pro-active approach to workforce sizing to ensure maximum efficiency across all functions of the business.

There were 2 Lost Time **Injuries** ('LTIs') during the half. This translated into a reduction in the Lost Time Injury Frequency Rate ('LTIFR') to 1.4, compared to 2.0 in the 2015 financial year. The Total Reportable Injury Frequency Rate ('TRIFR') decreased to 19.7 from 22.5 in the prior financial year.

## Divisional Results

**Austral Bricks** delivered an 18.4% increase in earnings for the six months ended 31 January 2016, with sales revenue up 5.2% to $194.0 million.

Unit manufacturing costs improved on the prior corresponding period, on the back of increased production output over the Christmas holiday period, and prior period plant upgrades.

Performance on the **east coast** was particularly strong, reflecting the buoyant market conditions, an increase in prices, improved operational performance, and a continued focus on style and product differentiation that is driving increased sales of higher margin products.

In Victoria, the Wollert plant is performing better than the original design expectations, with production now at record levels. Whilst in Queensland, the first phase of the Rochedale plant upgrades is now complete, resulting in improved product quality and plant efficiency. The final phase of the refurbishment program, comprising upgrades to the kiln and packaging plant, is planned for the second half of calendar year 2016.

The business continues to benefit from many years of investment to position Austral Bricks as the leading style brand in the industry, resulting in supply to many multi-residential towers and urban renewal projects including a 24 storey Lend Lease development at Darling Quarter and a 26 storey mixed use tower in Sussex Street, both in Sydney. In addition, there is growing demand for premium range products, such as pressed bricks from both Bowral and Wollert.

Earnings in **Western Australia** were lower, with this market now experiencing a sharp reduction in market activity and intense competition for sales. As a result, sales volume decreased compared to the prior corresponding period, despite a small decrease in average selling price. Prices in this market are now lower than they were seven years ago.

A refit to fully automate the currently mothballed Cardup plant is now underway and will deliver a significant improvement in product quality and a lower manufacturing cost, with this site benefitting from on site clay reserves.

Earnings from the **New Zealand Brick Distributors** joint venture were lower following a decline in volumes from the previous record levels, with softer demand in Christchurch.

**Austral Masonry** delivered another increase in earnings on relatively flat sales revenue of $44.5 million for the half. The improved performance was driven by a continued recovery in demand in south east Queensland and strong price increases in New South Wales. Elsewhere, the Central Queensland market is currently depressed due to a downturn in mining related activity, whilst demand remains stable in the tourist based economy of North Queensland.

**Bristile Roofing** earnings increased by 14.6% on the prior corresponding period, with sales revenue up 10.9% to $57.5 million. Earnings improved in all major east coast states, on the back of favourable market conditions and continued sales growth of premium imported terracotta tiles. An uplift was also recorded in Western Australia, despite the more difficult conditions in that state.

**Austral Precast** earnings also increased, on relatively flat sales revenue of $34.4 million. The result was driven by improved production efficiency and cost savings from restructuring initiatives.

A particular focus during the period was the creation of a unified national approach to back office functions such as estimating, drafting and quoting following multiple acquisitions over recent years. An increased focus on the growing high rise market, through developing “whole of structure” solutions is progressing well, with over 50% of sales now generated from this segment.

**Auswest Timbers** revenue was up 1.1% to $27.5 million on flat sales volume of 31,300$m^3$ for the half. Earnings were improved, primarily as a result of continued progress to enhance operational efficiency, with productivity improvements being wide spread across all sites. Domestic demand benefitted from the strong detached housing activity on the east coast, with the Fyshwick mill supplying roof tile battens into this market. Export demand increased from the Korean, US and UK markets, helping to offset weaker demand from China.

On 5 February 2016 Auswest completed the purchase of the previously shut down Whittakers timber mill in the southwest of Western Australia. This low cost modern mill is designed to process smaller sized Jarrah resource and the transfer of Deanmill operations to this site will deliver significant improvements to operations efficiency.

After many years of negotiation, the Victorian state government continues to frustrate our efforts to make the required investments in our East Gippsland mills, by denying certainty of log supply. As one of the largest employers in this region, these investments would provide an important boost for the local community, as well as enabling Auswest to cost effectively meet the strong demand for product from these mills. The Victorian operations now have only 16 months log supply contracted, with no clarity being provided to the industry by the government regarding longer term supply.

During the period **Specialised Building Systems** was established, with a focus on distributing high quality, market leading products to meet the evolving demands of the building industry. This business utilises a low capital cost model, through establishing partnerships with “best in class” manufacturers and leveraging Brickworks market leading customer relationships and distribution network. All products are rigorously tested to ensure they meet or exceed the requirements of the Building Code of Australia.

In November Pronto Panel was launched, a lightweight, durable, non-load bearing walling panel that can be utilised in internal and external walling applications. Initial market feedback has been very positive, with significant interest from our vast network of residential and commercial customers.

Other products in the portfolio include Terracade, a high-end terracotta façade system that continues to gain traction, particularly in commercial applications and INEX Boards, a range of lightweight cementitious sheets that can be used for virtually all building surfaces.

## *Land and Development*

Land and Development produced an EBIT before significant items of $45.4 million for the half year ended 31 January 2016, up 17.3% from $38.7 million for the prior year.

**Land Sales** contributed an EBIT of $1.1 million for the half. Transactions included the sale of 14 properties at Pemberton, Western Australia, originally part of the Pemberton mill leasehold land parcel.

The **Property Trust** generated an EBIT of $45.1million, up 17.4% from $38.4 million in the previous corresponding period.

Net property income distributed from the Trust was $6.4 million for the half, down from $7.1 million due to the Coles CDC sale in July 2015.

The revaluation profit of stabilised Property Trust assets totalled $30.3 million, up from $26.6 million due to compression in capitalisation rates of approximately 50bps. An additional EBIT of $8.4 million was contributed following pre-leases being secured at Oakdale Central and classification of the land as investment property during the period.

The total value of the Property Trust assets at 31 January 2016 was $933.5 million, with borrowings of $309.4 million, giving a total net value of $624.1 million. Brickworks Group share of the Trust's net asset value was $312.1 million, down $25.0 million from $337.1 million at 31 July 2015. The decrease is due primarily to the Coles CDC sale.

**Waste Management** contributed a profit of $1.0 million for the year, in line with the previous corresponding period. Royalty payments in relation to the Horsley Park landfill, operated by Veolia, ended in January 2016 and therefore no further waste management earnings will be generated from this facility.

Property administration **expenses** totalled $1.8 million, up slightly from $1.5 million in the prior period. These expenses include holding costs such as rates and taxes on properties awaiting development.

## Investments

The underlying EBIT from total investments was down 11.0% to $26.8 million in the half year ended 31 January 2016.

## Washington H. Soul Pattinson Limited ('WHSP')

ASX Code: SOL

Brickworks Group's investment in WHSP returned an underlying contribution of $26.6 million for the half year ended 31 January 2016, down 11.0% from $29.9 million in the previous corresponding period. This was due primarily to the impact of low coal prices on the earnings of New Hope Corporation.

The market value of Brickworks 42.72% share holding in WHSP was $1.719 billion at 31 January 2016, up $318.0 million from $1.401 billion at 31 July 2015. This investment continues to provide diversity and stability to earnings, with cash dividends totalling $30.7 million received during the half, up 3.4% on the prior period.

WHSP has delivered outstanding returns over the long term, outperforming the ASX All Ordinaries Accumulation Index by 6.8% p.a. over fifteen years.

WHSP holds a significant investment portfolio in a number of listed companies including Brickworks Group, TPG Telecom, New Hope Corporation, Australian Pharmaceutical Industries, BKI Investment Company, Ruralco Holdings and Apex Healthcare Berhad.

The investment in WHSP has been an important contributor to Brickworks Group's success for more than four decades. Over this period it has delivered an uninterrupted dividend stream that reflects the earnings from WHSP's diversified investments. This dividend helps to balance the cyclical earnings from the Group's Building Products and Land and Development divisions.

## Significant Items Post Balance Date

**Brickworks included in S&P/ASX 200**

Brickworks was included in the S&P ASX 200 Index as at close of trading on 18 March 2016. The improved liquidity and profile from being included in the index will be beneficial to all shareholders and reflects the significant level of investor support for the Group.

# Outlook

## Building Products

Current residential building activity is at the highest level on record, however conditions vary significantly across the country, with continued momentum on the east coast being offset by declines in Western Australia. These conditions are reflected in an extremely strong order book in all east coast divisions with builders in the major markets of Sydney and Melbourne reporting work in hand extending by up to one year.

With interest rates expected to stay at historically low levels for the foreseeable future, there is no sign of a slow down in activity on the east coast in the short term. Brickworks is also having significant success in combatting the ongoing competition from alternative products, with increased penetration in a number of key markets segments, such as face brick in high rise residential and commercial developments. The strength of our traditional and proven product portfolio has been re-enforced in recent times by a number of costly and high profile failures of other unaccredited building products.

However it is anticipated that further growth in sales volume will be limited due to industry trade shortages in a number of areas that effectively mean the industry has now reached a “natural peak” in capacity.

On balance, the short term outlook for Building Products is very positive, with the earnings uplift recorded in the first half expected to be maintained over the full financial year.

### *Regulatory concerns*

Despite the positive outlook, Brickworks is frustrated that the full potential of the Australian manufacturing industry is being held back by a glaring lack of pro-active and holistic government policy.

For example, Australia is missing a golden opportunity to utilise its energy advantage to fuel growth and investment in Australian manufacturing, with much of Australia’s abundant natural gas resource being quarantined for export to international LNG markets. The outcome is a domestic supply squeeze and massive price hikes, with recent negotiations suggesting that gas prices for financial years 2017 and 2018 will increase by 30%, totally at odds with falling commodity prices across the world.

Other examples include coastal shipping regulations that make it cheaper to ship bricks to Sydney from Spain than from Perth, and an inconsistent approach to renewable energy resulting in massive electricity price volatility. This is exemplified in South Australia, where Austral Bricks have incurred a 90% hike in electricity prices over the past 12 months.

With more focus and attention on these issues by all levels of government, there is an opportunity to stimulate increased investment in manufacturing, create more jobs and a stronger overall economy.

### *New Brick Technology*

Brick kiln design is fundamentally unchanged since the introduction of “2nd generation” low fuel consumption tunnel kilns in the 1980’s. Direxa Engineering have developed a revolutionary new concept in brick kiln design, referred to as a “Skate-Kiln”. This technology removes the need for kiln cars and would deliver significant cost savings as a result of reduced energy consumption, improved productivity and lower maintenance costs.

If this technology delivers as expected, it will result in a significant leap forward in brick manufacturing, delivering 30% lower manufacturing costs and up to 30% lower capital costs to construct a new plant.

Brickworks has an exclusive agreement to utilise this skate kiln technology in certain markets in Australia, with Western Australia having been identified as a priority for deployment. Initial planning is underway for the construction of a new plant utilising this technology in Western Australia, with a target commissioning date in the first quarter of financial year 2018.

## Land and Development

The strong development activity in the Property Trust is set to increase further in the second half. Oakdale Central will see considerable growth with the completion of two additional DHL facilities (27,000m$^2$ and 31,000m$^2$) in May 2016. Construction will then start on two new developments, Reckitt Benckiser at 36,870m$^2$ and DSV Transport and Logistics at 8,275m$^2$, which were secured as pre-commitments during the first half. 84% of Oakdale Central has now been committed for development, with a gross floor area of only 36,000m$^2$ remaining available.

To allow further growth of the Property Trust, a State Significant Development Application ("SSDA") has been submitted for the development of an industrial estate at the 62 hectare Oakdale South site. Portions of this site have been set aside for land sales. Sale negotiations are underway with a number of high profile local and international companies for 28 hectares at this site.

Planning work is also well underway for the Oakdale West site, with a SSDA for this 100 hectare property to be lodged before the end of March 2016. The first section of this property is likely to be sold into the Property Trust in the second half of the current financial year. The Oakdale South and West sites will help provide the necessary industrial space in western Sydney over the medium term to satisfy the increasing demand in the area.

At the Rochedale North estate, the Beaumont Tiles facility totalling 12,912m$^2$ reached practical completion in mid February 2016. Construction will now commence on the Franklyn Blinds facility (8,000m$^2$) and two speculative developments (8,000m$^2$ and 5,800m$^2$).

## Investments

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

## Brickworks Group

The earnings uplift recorded in Building Products during the first half is expected to be maintained over the full financial year. Land and Development earnings are also expected increase, subject to the timing and value of property transactions. Investments earnings are expected to steadily increase over the long term.

LINDSAY PARTRIDGE
MANAGING DIRECTOR