



Brickworks Limited
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22 September 2016

Australian Securities Exchange
Attention: **Companies Department**

BY ELECTRONIC LODGEMENT

Dear Sir / Madam

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

Yours faithfully

BRICKWORKS LIMITED

A handwritten signature in black ink, appearing to read "S. Leppinus".

Susan Leppinus

Company Secretary

Proudly supports





REVIEW OF RESULTS
FULL YEAR ENDED JULY 2016

Released: 22nd September 2016

BRICKWORKS LIMITED - REVIEW OF RESULTS

FULL YEAR ENDED JULY 2016

RECORD UNDERLYING NPAT

BUILDING PRODUCTS, PROPERTY AND INVESTMENTS UP

FULL YEAR DIVIDEND 48 CENTS, UP 7%

\$ MILLIONS	July 16	July 15	Variance %
REVENUE			
Building Products	748.1	700.9	6.7
Land and Development	2.4	22.4	(89.3)
Other	0.4	0.3	33.3
Total	751.0	723.6	3.8
EBIT			
Building Products	75.4	56.4	33.7
Land and Development	73.5	64.4	14.1
Associates & Investments	59.6	54.9	8.6
Head Office & Other	(12.5)	(9.7)	(28.9)
Total EBIT (before significant items)	195.9	165.9	18.1
Total EBITDA (before significant items)	223.3	191.1	16.8
Interest cost	(13.6)	(17.1)	20.5
Mark to market valuation of swaps	(0.4)	(2.4)	83.3
Underlying tax expense	(34.8)	(26.1)	(33.3)
Underlying NPAT	147.1	120.3	22.3
Significant items	(68.9)	(42.2)	(63.3)
Statutory NPAT	78.2	78.1	0.1
PER SHARE ANALYSIS			
Underlying earnings per share (cents)	98.9	81.1	21.9
Statutory earnings per share (cents)	52.6	52.6	0.0
Final ordinary dividend (cents)	32.0	30.0	6.7
Total full year dividend (cents)	48.0	45.0	6.7
Share price (31 Jul 16)	\$15.03	\$14.90	0.9
Net tangible assets (NTA)	\$10.96	\$10.59	3.5
Share price / NTA (times)	1.4	1.4	0.0

Annual TSR	1 Year	3 Years	5 Years	10 Years	15 Years
Brickworks Limited	3.9%	10.4%	12.3%	5.7%	8.7%
All Ords Accum Index	4.0%	8.5%	9.4%	5.7%	8.1%
Outperformance	(0.1%)	1.9%	2.9%	0.0%	0.6%

RECORD UNDERLYING NPAT

BUILDING PRODUCTS, PROPERTY AND INVESTMENTS UP

FULL YEAR DIVIDEND 48 CENTS, UP 7%

Highlights

- **Underlying NPAT** before significant items up 22.3% to \$147.1 million
 - **Building Products EBIT** up 33.7% to \$75.4 million (EBITDA \$102.8 million)
 - **Land and Development EBIT** up 14.1% to \$73.5 million
 - **Investments EBIT** up 8.6% to \$59.6 million
- **Statutory NPAT** including significant items, up 0.1% to \$78.2 million
- **Net debt/capital employed** of 12.8%, net debt \$269.2 million
- **Final dividend** of 32 cents fully franked, up 2 cents or 6.7%
- **Total full year dividend** of 48 cents fully franked, up 3 cents or 6.7%

Overview¹

Brickworks (ASX: BKW) posted a record underlying Net Profit After Tax ('NPAT') for the year ended 31 July 2016 of \$147.1 million, up 22.3% on the prior year. A feature of the result was the diversified earnings contribution, with Building Products, Land and Development and Investments all delivering an uplift in underlying earnings compared to the prior year.

After including the impact of significant items, statutory NPAT was \$78.2 million. The significant items, totalling \$68.9 million after tax, primarily relate to the impairment of goodwill in Austral Bricks Western Australia. In addition significant restructuring activities in Austral Bricks and Auswest Timbers in that state resulted in the closure of plants and the non-cash write down of assets. The asset carrying values of all other divisions are supported by the net present value of their respective future cash flows².

On record sales revenue of \$748.1 million, **Building Products'** underlying earnings before interest and tax ('EBIT') was \$75.4 million, up 33.7% on the prior year. EBITDA was up 26.0% to \$102.8 million, on a combination of continued volume growth and increased margins.

Land and Development EBIT was \$73.5 million for the 12 months to 31 July 2016, primarily due to a strong revaluation profit in the Joint Venture Industrial Property Trust³ ('Property Trust').

¹ Unless otherwise stated all earnings measures exclude significant items

² Further information regarding the annual goodwill impairment assessment is contained in Note 15 (b) to the financial statements.

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

Investment EBIT, including the underlying contribution from Washington H. Soul Pattinson Limited ('WHSP'), was up 8.6% to \$59.6 million. This was due primarily to an increase in earnings from TPG Telecom.

Underlying earnings per share ('EPS') were 98.9 cents, up 21.9% from 81.1 cents for the prior year.

Directors have declared a fully franked final **dividend** of 32 cents per share for the year ended 31 July 2016, up 6.7% from 30 cents. Together with the interim dividend of 16 cents per share, this brings the total dividends paid for the year to 48 cents per share, up 3 cents or 6.7% on the prior year.

The record date for the final dividend will be 10 November 2016, with payment on 30 November 2016.

Financial Analysis

Gearing (gross debt to equity) was 16.3% at 31 July 2016, down from 17.8% at 31 July 2015. Total interest bearing debt decreased to \$300.0 million and **net debt** reduced to \$269.2 million at 31 July 2016. Net debt to capital employed was 12.8% at the end of the period.

Interest costs were down 20.5% to \$13.6 million for the year on the reduced debt level and a lower average interest rate. **Total borrowing costs** were \$14.1 million, including the mark to market valuation of swaps. Underlying interest cover was 14.4 times, up from 9.7 times at 31 July 2015.

Working capital, excluding land held for resale, was \$189.0 million at 31 July 2016, up \$32.8 million from the prior year, due to an increase in cash, inventory and receivables.

During the year **finished goods inventory** was up by \$8.1 million, due to increases in Austral Bricks Western Australia and a stock build required to launch the new Specialised Building Systems division. Excluding these businesses, stock levels were held relatively steady compared to the prior year.

Total **cash flow from operating activities** was \$148.5 million, up 11.4% from \$133.3 million in the prior year.

Building Products spend on **capital expenditure and acquisitions** increased to \$52.7 million, from \$46.6 million in the prior year. Stay in business capital expenditure was \$23.5 million, 85.8% of depreciation. Spend on major upgrade projects totalled \$20.6 million, primarily consisting of upgrades to the Rochedale plant in Queensland and the Cardup plant in Western Australia. Spending on growth projects and acquisitions totalled \$8.6 million for the year, comprising the purchase of three small metal roofing and fascia and gutter installation businesses based in New South Wales and Queensland, and a sawmill in Western Australia.

Land and Development spend on capital expenditure was \$5.4 million, relating to various site infrastructure works and development applications. In addition, a net amount of \$13.6 million was invested into the Property Trust to reduce gearing to 34.4%, funded by the settlement of the Coles CDC facility in August 2016.

The underlying **income tax** expense for the year increased to \$34.8 million compared to \$26.1 million for the previous year, due to the increased earnings from the Building Products and Land and Development Groups. Actual tax paid during the year was significantly lower at \$10.2 million, due primarily to the benefits associated with the fully franked dividends received from WHSP and the property revaluations booked this year.

Net tangible assets ('NTA') per share was \$10.96 at 31 July 2016, up from \$10.59 at 31 July 2015 and total shareholders' equity was up \$14.2 million to \$1.839 billion, after including the impact of the goodwill impairment.

Return on equity of underlying earnings was 8.0%, up from 6.6% in the prior year. This does not include a \$381.4 million increase in the market value of the company's investment in WHSP over the period. Looking back over the past fifteen years, this investment has delivered an average \$85 million p.a. in value to Brickworks, not recognised on the income statement.

Significant items reduced NPAT by \$68.9 million for the full year, consisting primarily of the non-cash goodwill impairment in Austral Bricks Western Australia of \$47.3 million, in accordance with AASB 136.

There are no other Cash Generating Units where a reasonably possible change in a key assumption would result in impairment to the carrying value of goodwill or other indefinite useful life intangibles.

In response to the current operating conditions in Austral Bricks Western Australia, management has taken decisive action, with a restructuring program well underway. One-off costs of \$4.8 million after tax were incurred in relation to the restructuring initiatives within Austral Bricks Western Australia. This includes a non-cash write-down of plant and equipment due to the planned closure of the Malaga plant, with production being transferred to Cardup to allow the sale of the valuable Malaga site.

Following the acquisition of the Greenbushes sawmill in Western Australia, a restructure of Auswest Timbers operations was implemented in the second half of the year, to significantly improve the efficiency of operations in that state. One-off costs of \$7.6 million after tax were incurred as a result of this restructure, including a non-cash write-down of plant and equipment following the closure of the Deanmill site.

Significant Items (\$m)	Gross	Tax	Net
Goodwill impairment – Austral Bricks WA	(47.3)	-	(47.3)
Austral Bricks WA restructure	(6.8)	2.0	(4.8)
Auswest Timbers Restructure	(10.8)	3.3	(7.6)
Costs relating to Perpetual litigation	(2.8)	0.8	(2.0)
Other significant items	(6.6)	2.0	(4.6)
Significant items relating to WHSP	0.1	(2.8)	(2.7)
TOTAL	(74.2)	5.3	(68.9)

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.

The cross-claim brought by Perpetual against Brickworks and WHSP is continuing. Following a lengthy discovery process the parties are now in the process of preparing evidence for trial.

The Perpetual litigation has caused Brickworks to incur approximately \$2.0 million after tax in costs during the twelve months to 31 July 2016.

Brickworks Building Products

Summary of Housing Commencements – 12 Months to June 2016

Estimated Starts ⁴	Detached Houses			Other Res			Total		
	Jun 16	Jun 15	Change	Jun 16	Jun 15	Change	Jun 16	Jun 15	Change
New South Wales ⁵	27,739	26,704	3.9%	42,764	34,689	23.3%	70,503	61,393	14.8%
Queensland	22,632	23,174	-2.3%	25,174	21,998	14.4%	47,806	45,172	5.8%
Victoria	33,735	32,341	4.3%	33,516	32,587	2.9%	67,251	64,928	3.6%
Western Australia	18,379	23,520	-21.9%	7,004	8,082	-13.3%	25,383	31,602	-19.7%
South Australia	7,416	7,729	-4.0%	2,958	2,867	3.2%	10,374	10,596	-2.1%
Tasmania	1,991	2,326	-14.4%	441	510	-13.5%	2,432	2,836	-14.2%
Total Australia⁶	112,749	116,662	-3.4%	112,618	101,824	10.6%	225,367	218,486	3.1%
New Zealand ⁷	26,836	22,969	16.8%	2,261	2,185	3.5%	29,097	25,154	15.7%

Total dwelling commencements for Australia were up 3.1% to 225,367 for the twelve months ended 30 June 2016. This level of residential building activity is the highest on record in Australia, driven by unprecedented growth in other residential commencements over the past four years. In the 12 months to June 2016, other residential developments represented around 50% of total commencements.

Other residential commencements increased a further 10.6% to 112,618 for the twelve months to 30 June 2016. This level of other residential activity is more than double the 25 year average and almost three times the levels recorded seven years ago.

Following three years of growth, detached housing commencements decreased 3.4% on the prior year, with continued momentum in the major east coast states of New South Wales and Victoria offset by sharp declines in Western Australia. Despite the strong conditions detached house commencements remain 15% below the record level.

Conditions in **New South Wales** (including ACT) remain strong, with total residential commencements up 14.8% on the prior year. Following four years of strong growth, total commencements in this region are at a new record peak. Once again, growth was driven by other residential commencements, up 23.3% whilst detached houses continued a trend of steady growth.

Queensland experienced an increase in overall activity, with commencements up 5.8% to 47,806 for the twelve months to 30 June 2016. Detached housing commencements were down 2.3%, and at levels more than 8% below the 25 year average, represent an area of weakness in the Australian housing market.

Total commencements in **Victoria** of 67,251 for the year are the highest on record for any state, with a relatively even split between detached houses and other residential developments. The rate of growth in Victoria has slowed over the past twelve months, following a period of unprecedented increases in other residential commencements over the prior 2 years.

⁴ Original data sourced from ABSCat. 8752.0 Number of Dwelling Unit Commencements by Sector, States & Territories, except June 16 quarter estimate, from BIS Shrapnel.

⁵ Includes ACT, to align with Brickworks divisional regions

⁶ Includes Northern Territory, not shown separately on table

⁷ Building Consents data sourced from Statistics New Zealand – Building Consents.

Western Australia is in the midst of a cyclical decline in building activity, with a 21.9% reduction in detached house commencements and a 13.3% decline in other residential commencements over the period.

Continued growth in **New Zealand** was recorded, with building consents for the year ended 30 June 2016 increasing by 15.7%.

The value of approvals in the **non residential** sector in Australia increased by 8.3% to \$34.3 billion for the twelve months to 30 June 2016. Within the non residential sector, **Commercial** building approvals decreased by 10.7% to \$11.0 billion for the period and **Industrial** building approvals increased 6.1% to \$4.8 billion. The **Educational** sub-sector, an important driver for bricks and masonry demand, was up 20.5% to \$4.9 billion.

Building Products' Results in Detail⁸

Year Ended July	Units	2016	2015	Change %
Revenue	\$mill	748.1	700.9	6.7
EBITDA	\$mill	102.8	81.6	26.0
EBIT	\$mill	75.4	56.4	33.7
Capital Expenditure and acquisitions	\$mill	52.7	46.6	13.1
EBITDA margin	%	13.7	11.6	18.1
EBIT margin	%	10.1	8.0	26.3
Net Tangible Assets	\$mil	620.0	590.6	5.0
Return on Net Tangible Assets	%	12.2	9.5	28.4
Full Time Equivalent Employees		1,490	1,468	1.5
Safety (TRIFR) ⁹		19.2	22.5	(14.7)
Safety (LTIFR) ¹⁰		1.6	2.0	(20.0)

Revenue for the year ended 31 July 2016 was up 6.7% to a record \$748.1 million, compared to \$700.9 million for the prior year. Financial year 2016 saw continued growth in building materials demand, with sales revenue exceeding the prior year in all divisions except Auswest Timbers.

EBIT was \$75.4 million, up 33.7% on the prior year, and **EBITDA** was \$102.8 million. Earnings in the second half of \$42.8 million were 31.2% higher than the first half and 41.4% up on the prior corresponding period. This acceleration of earnings growth was achieved despite extended periods of rain and cold weather during June and July that impacted sales during the latter part of the year.

Unit margins were significantly higher for the year, supported by the growth of premium, higher priced products across most divisions. This follows a sustained investment in product development and marketing over many years, and the company's collaboration with key influencers to position Brickworks as the leading style brand in the industry.

Manufacturing costs were well controlled during the year, supported by an increase in production volume to meet the higher demand, and prior period plant upgrades in some divisions.

Despite the ongoing success in managing production costs, Brickworks continues to face significant uncertainty in relation to the availability and price of natural gas. With energy representing around 20% of the total cost of bricks, securing a reliable and cost effective gas supply is critical to Brickworks' operations.

Although gas has now been secured across all operations until the end of calendar 2018, pricing is extremely volatile in each state from one year to the next. In response, the company is continuing to investigate and make significant capital investments in a range of energy reduction, alternative fuels and green synthetic natural gas ('GSNG') projects to mitigate the uncertainty surrounding future supply.

⁸ All references to earnings within Building Products represent underlying earnings, pre significant items.

⁹ Total Reportable Injury Frequency Rate (TRIFR) measures the total number of reportable injuries per million hours worked

¹⁰ Lost Time Injury Frequency Rate (LTIFR) measures the number of lost time injuries per million hours worked

Sales and overhead costs were significantly lower as a percentage of revenue. This outcome was particularly pleasing given the continued investment in marketing and increased spend on information technology to better support our customer requirements.

Building Products earnings for the year also included a \$7.2 million adverse impact due primarily to lower clay receipts from building sites, and to a lesser extent the costs associated with launching the new Specialised Building Systems division and a range of other minor items.

Following four consecutive years of earnings growth, Building Products' underlying Return on Net Tangible Assets ('**RONTA**') was 12.2%, up from 9.5% in the prior year.

Full time equivalent **employees** increased by 22 during the year, taking the total number to 1,490 at 31 July 2016. This includes the addition of 20 employees as a result of acquisitions during the year. Brickworks' on-going commitment to maintaining a pro-active approach to workforce productivity is demonstrated by the increase in revenue per employee to over \$500,000, up 6.0% compared to the prior year.

There were 5 Lost Time **Injuries** ('LTIs') during the year, down from 6 in the prior year. This translated into a reduction in the Lost Time Injury Frequency Rate ('LTIFR') to 1.6, compared to 2.0 in the 2015 financial year. The Total Reportable Injury Frequency Rate ('TRIFR') decreased to 19.2 from 22.5 in the prior financial year.

Divisional Results

Austral Bricks delivered a 21.5% increase in earnings for the twelve months ended 31 July 2016, with sales revenue up 6.9% to \$405.8 million on sales volume of over 670 million bricks.

The company's sustained investment in style and branding has contributed to the renaissance of face brick over the past few years. Together with a focus on building strong and collaborative relationships with architects and specifiers, this has resulted in Austral Bricks products being specified in many land-mark projects across the country.

In New South Wales alone, Austral Bricks products were specified in over 50 high rise developments during financial year 2016¹¹. For example, the 20 storey residential developments in Darling Square Sydney, utilising 500,000 bricks in 22 custom made shapes, and the Arc Development by Crown, also in Sydney that incorporates 8 storeys of intricate brickwork.

The success of this strategy has delivered increased sales of premium products, resulting in higher margins for the 12 months to 31 July 2016.

At the recent Horbury Hunt awards that recognise excellence in the use of bricks in architectural design, Austral Bricks feature in four of the six winning projects, including the residential, commercial, landscaping and overall categories.

Performance on the **east coast** was particularly strong, driven primarily by the major markets of New South Wales and Victoria. Austral Bricks has forged a strong competitive position in these markets following years of investment in manufacturing plants and product development initiatives. Buoyant market conditions in these states supported an increase in sales volume, and unit margins were significantly higher on the back of manufacturing efficiencies and improved prices. In Victoria, the Wollert plant is performing well ahead of the original design expectations, with production for the year at record levels.

Earnings in **Queensland** were also ahead of the prior year and gathered momentum in the second half. This follows the completion of the first phase of the Rochedale plant upgrades, resulting in much improved product quality and lower unit production costs. The final phase of the refurbishment program, comprising upgrades to the kiln, kiln cars and packaging plant, is planned for financial year 2017.

Earnings in **Western Australia** were lower, with this market in the midst of a cyclical downturn in market activity and intense competition for sales. As a result, sales volume was down on the prior year, despite a small decrease in average selling price. Prices in this market are now lower than they were eight years ago.

A comprehensive restructuring plan is currently underway, aimed at delivering a market leading position in Western Australia. During the year, work progressed on a major refit to the previously mothballed Cardup plant to fit advanced automation, set to deliver improved product quality and significantly lower production costs. These upgrade works will be completed early in calendar year 2017, allowing the transfer of production from the less efficient Malaga plant, to be closed and made available to the Property Group for sale.

Earnings from the **New Zealand Brick Distributors** joint venture were lower for the year. Although overall market activity in New Zealand remains robust, sales have been adversely impacted by bricklayer shortages and the limited release of land suited to brick veneer construction as part of the Christchurch rebuild program.

¹¹ Buildings greater than four storeys

Austral Masonry delivered another increase in earnings on sales revenue of \$90.9 million, up 4.4% on the prior year. Total sales volume increased to 479,000 tonnes for the year, driven by strong growth in south east Queensland and New South Wales. In these markets, grey block sales were significantly higher, buoyed by the increase in multi-residential building where blocks continue to be a popular choice for a wide range of walling applications. 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.

The improved earnings were supported by a sustained focus on premium products in both the commercial and residential sectors that delivered improved pricing outcomes. Over the year a number of new honed and polished blocks were launched and are now gaining traction in applications such as feature walls in residential dwellings. Meanwhile, increased sales of higher margin engineered retaining wall systems such as “Keystone” and “Magnumstone” had a positive impact on the result.

Bristile Roofing earnings increased on the prior year, with revenue up 11.5% to \$124.2 million, on sales volume of almost 3.7 million square metres of tiles. On the east coast, demand in Victoria was particularly strong, driving strong earnings growth in this state. Premium imported La Escandella terracotta tiles continue to gain market traction with sales volume increasing by a further 24.0% on the prior year.

Despite the difficult conditions in Western Australia resulting in a significant decline in sales volume, earnings in this state were held relatively steady, due to a range of initiatives implemented to control costs and an increased focus on securing higher margin sales.

Over the past 12 months, Bristile Roofing has expanded its product offer, through the acquisition of two metal roofing and fascia and gutter installers in New South Wales and one in Queensland. These acquisitions provide diversification and earnings growth opportunities, allowing Bristile to offer an all inclusive product range that includes locally manufactured concrete tiles, premium imported ceramic tiles, metal roofing, re-roofing and fascia and guttering.

Austral Precast delivered a strong turn-around in performance with earnings significantly higher than the prior year and sales volume in excess of 20,000 panels for the year. Sales revenue of \$74.0 million was up 11.4%, with strong sales growth in New South Wales and Victoria offset by weakness in Western Australia. 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.

A range of process improvements and low cost capital initiatives resulted in improved operational efficiency across all plants. Another key focus during the period was the creation of a unified national approach to back office functions such as estimating, drafting and quoting.

Auswest Timbers revenue was down 5.7% to \$52.5 million on sales volume of 62,000m³ for the year. Significant progress has been made to enhance operational efficiency, with productivity improvements being wide spread across all sites. Domestic demand benefited 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.

In February Auswest Timbers completed the purchase of a previously shut down timber mill at Greenbushes, in the southwest of Western Australia. This low cost modern mill was purpose built to process smaller sized Jarrah resource, in line with expected future log supply.

Since the purchase, the mill has been recommissioned, with production volume being transferred from the now closed Deanmill site. Operational performance is ahead of expectation with the mill delivering almost 25% lower costs and greater throughput.

Specialised Building Systems was established during the first half of the year, with a focus on distributing high quality, market leading products to meet the evolving demands of the building industry. All products are rigorously tested to ensure they meet or exceed the requirements of the Building Code of Australia.

Pronto™ panels have been well accepted by the market as a lightweight, durable, non load bearing walling solution, with significant interest from our vast network of residential and commercial customers.

INEX™ boards, a range of lightweight cementitious sheets that can be used in a wide range of flooring and walling applications, are also proving extremely popular. Production capacity is currently being increased to meet the large pipeline of orders and strong demand for this product.

Terracade™ façade systems also continues to gain traction with increasing sales volume, particularly in commercial and high rise residential applications. The product range has recently been expanded to include baguettes, an important accessory that allows the business to offer a full product solution to architects.

Building Products Strategy

“We believe in making beautiful products that last forever”

Our goal is to be Australia’s best building products company

Brickworks goal of being Australia’s best building products company is supported by a strategy that comprises:

1. Strengthening the core business

- *Operations excellence*
- *Consolidation and growth*
- *Customer and key influencer relationships*
- *Style & product leadership*

2. Building new growth businesses

- *Investing in affiliated businesses*
- *Distributing market leading products*
- *Creating better building solutions*

3. Sustaining our strong culture

- *Embed our values across the organisation*

Strengthening the core business

Operational excellence activities are focussed on achieving the lowest cost position in each of our markets. Restructuring and productivity improvements are a fundamental requirement in achieving this. As such the company will always take a pro-active approach and act decisively when required, as illustrated by initiatives underway in our Western Australian operations.

Achieving the lowest cost position also requires a willingness to invest capital in facilities in order to replace outdated equipment or make significant cost improvements. In financial year 2016 major capital investments were made to upgrade facilities and improve the competitive position in Austral Bricks Western Australia, Austral Bricks Queensland and Auswest Timbers.

Looking ahead, a range of other capital investment opportunities across the Group are under consideration, including a new technology skate kiln plant in Austral Bricks WA, a state-of-the-art masonry plant in New South Wales, an automated precast facility in Victoria and a new brick kiln at Bowral.

Brickworks are also committed to market *consolidation and growth* opportunities within our core business. In recent years market consolidating acquisitions in Austral Masonry have delivered a much improved industry structure, resulting in increased scale and profitability.

Our investment during the year to expand into metal roofing, fascia and gutter installation is an example of the growth opportunities that are available within our core business and the company will continue to consider other opportunities as they arise.

Developing the strongest *customer and key influencer relationships* is an ongoing priority for Brickworks. For more than 30 years, the company has been investing in customer relationships through industry leading incentive programs that now extend across the entire customer base.

The roll out of our CBD design studios was completed during the year, with studios now established in all major capital cities. Over the past 12 months, these studios have hosted hundreds of events and attracted thousands of customers, architects and other key influencers.

This has resulted in the increasing penetration of Brickworks products in a number of key markets such as high rise and commercial developments, as outlined earlier.

The company has continued its sustained investment in *style and product leadership*. This strategy starts with the creation of desirable products, but is ultimately aimed at consumers, to drive demand. For our customers this provides greater product choice, versatility in design and ultimately a better end product. For Brickworks, our leadership in style and our premium products allows us to differentiate from our competitors, penetrate new markets and secure higher margins.

A national Austral Bricks branding campaign covering television, digital and print media was launched during the year to support this priority. This campaign, featuring brand ambassador Kate Waterhouse, promotes Brickworks personality as stylish, aspirational, innovative, beautiful and confident.

Building new growth businesses

Just over a decade ago, the Building Products Group was a two state brick manufacturer with operations in New South Wales and Queensland. Since that time the company has *invested in affiliated businesses* to become a diversified national building products business. Acquisitions in masonry, precast concrete and timber have provided increased end-market exposure and geographic diversification.

Brickworks has maintained a disciplined approach to expansion, with each new acquisition being closely aligned with existing products, allowing the company to leverage customer relationships by offering an expanded range of complimentary products. The company will continue to maintain a diligent approach to assessing acquisition opportunities beyond the existing core businesses.

The company is well placed to leverage its strong relationships and channels to market to *distribute new market leading products*. The launch of Specialised Building Systems during the year is an example of this. This business utilises a low capital cost model, through establishing manufacturing and distribution partnerships with “best in class” suppliers and leveraging Brickworks market leading customer relationships.

During the year the company also executed a distribution agreement with INEX™ boards. This follows the success of our exclusive distribution arrangements in place for premium La Escandella roof tiles and specialised bricks from Spain.

The Building Products Group is continually developing new and innovative products and *creating better building solutions* to meet our customer’s needs. For example, over the past 12 months the company has launched the Pronto™ panel lightweight cladding system, introduced Swiftdeck, an easy to install timber decking system, and continued to expand its’ “whole of structure” precast solution.

Sustaining our strong culture

Brickworks is proud of its’ dynamic, hard working, “can-do” culture that has evolved over many years as the company has grown from a two state brick manufacturer to an ASX200 company.

The company recognises that this culture is a key differentiator from competitors and a fundamental component of its success. As such, sustaining this strong culture and embedding it across the organisation is critical, and forms an integral part of the Building Products strategy.

Significant work was undertaken during the year to define the key values that drive the company’s culture and ensure that these values are embedded throughout the organisation, including through the recruitment, performance review and succession planning processes.

Building Products Outlook

Current residential building activity in Australia is at the highest level on record, driven by strong population growth over the past five years, low interest rates and rising house prices. With approvals remaining elevated, commencements are likely to stay high for some time to come, particularly considering the significant weather related delays experienced in June, July and August.

Although the overall housing market remains very strong, conditions vary significantly across the country. On the east coast, strong demand in Victoria is being fuelled by the highest rate of net interstate migration in the country. Meanwhile in New South Wales, housing activity is expected to stay robust for an extended period of time, due to a large undersupply of housing that developed during the 2000's and remains significant even today. Recent analysis from BIS Shrapnel estimates that in New South Wales there is around 15 months of unsatisfied housing demand, even at the current record rate of building.

These conditions are reflected in a full order book in all east coast divisions with builders in the major markets of Sydney and Melbourne reporting a long pipeline of work. In Austral Precast, work in hand extends over 9 months, fuelled by numerous large scale projects in the commercial and multi-residential high rise sector.

The continued buoyancy of the housing market on the east coast is being offset by a cyclical decline in building activity in Western Australia, as employment prospects in this state deteriorate, leading to slowing population growth, high vacancy rates and reduced housing demand.

Despite the current downturn, Western Australia has a strong and entrenched tradition of brick usage, with sales per capita being more than 3 times any other state in Australia. Therefore as the country's largest brick maker this is a very attractive market to Brickworks. As such the company is making the necessary investment to upgrade facilities and rationalise manufacturing operations in that state.

The ongoing capital upgrade works at the Cardup brick plant will be a key focus in the first half of financial year 2017, whilst further rationalisation of Auswest Timbers' Western Australian production facilities are planned over the coming months. These initiatives will deliver significantly lower costs and much improved prospects for these operations over the long term; however earnings will be impacted in the short term.

Elsewhere, isolated issues remain a concern in some businesses. After many years of negotiation, the Victorian state government continues to frustrate efforts to make the required investments in our East Gippsland timber mills, by denying certainty of log supply.

These operations now have only 9 months supply contracted, with no clarity being provided beyond that term. 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. However, if an acceptable log contract is unable to be secured, the East Gippsland facilities will be closed.

Overall, the short term outlook for Building Products remains positive, with a full order book and a long pipeline of work at higher margins in our major east coast markets set to support earnings in financial year 2017. Business growth initiatives will provide diversification and underpin earnings in the event of a cyclical decline in market activity over the medium term.

Land and Development

FY2016 Result

Year Ended July (\$million)	2016	2015
Net Trust Income	15.3	15.3
Revaluation of properties	41.8	30.9
Development Profit	17.8	2.7
Sale of assets	0.0	12.1
Property Trust	74.9	61.1
Land Sales	1.4	4.6
Waste	1.3	2.6
Property Admin and Other	(4.2)	(3.8)
Total	73.5	64.4

Land and Development produced an EBIT before significant items of \$73.5 million for the year ended 31 July 2016, up 14.1% from \$64.4 million for the prior year.

The improved result was due to growth in the industrial **Property Trust**, generating an EBIT of \$74.9 million, up 22.6% from \$61.1 million in the prior year.

Net property income distributed from the Trust was \$15.3 million, in line with the prior year, despite the settlement of the Coles CDC facility in August 2015. The lost rent from this sale was offset by lower interest payments, rent increases on stabilised assets and the additional rental income of new developments at Oakdale Central and Rochedale.

The reduction in interest payments were the result of lower average interest rates and reduced gearing within the Property Trust. The Property Trust gearing¹² level was 34.4% at 31 July 2016, down from 38.0% a year earlier.

Three new developments were completed during the period, including two facilities for DHL at Oakdale Central, and the Beaumont Tiles facility at Rochedale. Revaluation profit on completion of these developments totalled \$17.8 million.

Property revaluations contributed a profit of \$41.8 million. This was made up of the revaluation profit of stabilised assets of \$33.4 million, due to compression in capitalisation rates, and an additional EBIT of \$8.4 million following pre-leases being secured at Oakdale Central.

Land Sales contributed an EBIT of \$1.4 million for the year. Transactions included the sale of 16 properties and 2 blocks of vacant land at Pemberton, Western Australia, originally part of the Pemberton mill leasehold land parcel.

Waste Management contributed a profit of \$1.3 million for the year, down from \$2.6 million in the prior year. This was due to the completion of the royalty free period on the Horsley Park landfill in February 2016.

¹² Borrowings divided by total Property Trust assets including land to be developed

Property administration **expenses** totalled \$4.2 million, up from \$3.8 million in the prior year. These expenses include holding costs such as rates and taxes on properties awaiting development.

Property Trust

The total value of assets held within the Property Trust at 31 July 2016 was \$1.011 billion. This includes \$787.3 million in leased properties and a further \$223.8 million in land to be developed.

Borrowings of \$347.4 million are held within the Property Trust, giving a total net asset value of \$663.7 million. Brickworks Group share of net asset value was \$331.9 million, down \$5.1 million from \$337.1 million at 31 July 2015 due to the Coles CDC sale. Since this sale, Brickworks Group share of the Trust's net asset value has increased by \$53.9 million.

The entire Property Trust portfolio consists of "A grade" facilities, each less than seven years old, with long lease terms and stable tenants. The annualised gross rent exceeds \$51 million, capitalisation rates range from 6.3% to 8.3% and there are currently no vacancies.

Summary of Property Trust Assets – Leased Properties Only

Note: The Trust also holds land to be developed with a value of \$223.8 million

Estate	Asset Value (\$m)	Gross Lettable Area (m²)	Gross Rental (\$m p.a.)	WALE¹³ (yrs)	Cap. Rate
M7 Hub (NSW)	117.6	64,125	8.2	4.1	6.4%
Interlink Park (NSW)	356.8	192,207	23.1	6.2	6.3%
Wacol (QLD)	12.8	10,384	1.2	2.1	8.3%
Oakdale (NSW)	276.0	146,556	17.1	6.8	6.3%
Rochedale (QLD)	24.1	12,912	1.5	12.0	6.3%
Total	787.3	426,184	51.1	6.1	6.4%

Brickworks Development Land

Development land is excess to Building Products operations requirements and is held within the Land and Development Group. Where appropriate, development land is rezoned residential and sold. Alternatively the land is rezoned industrial and transferred into the Property Trust for future development.

Development Land	Gross Land Area (ha)			Development Area (ha)	Book Value (\$m)	Potential Value¹⁴ (\$m)
	FY16	FY15	Change			
NSW	154	154	-	97	14	73
VIC	332	332	-	196	29	146
QLD	36	36	-	14	2	11
WA	-	187	(187)	-	-	-
Total	522	709	(187)	307	45	230

¹³ Weighted average lease expiry

¹⁴ Based on feasibility assessment by independent valuers on the future land value if rezoned and rehabilitated and excludes any development profit to Brickworks

In total development land has the potential to be worth at least \$230 million, assuming rezoning and development approval of these properties.

The largest site held for development is at Craigieburn in Victoria. Delays have been experienced on the rezoning of part of this site to residential, with the Metropolitan Planning Authority (“MPA”) still working on the finalisation of its Quarry Investigating Area Plan. As a result Brickworks is now collaborating with other landowners in this Area Plan to produce development concepts that may accelerate the project, subject to regulatory approvals.

Brickworks Operational Land

Operational land is utilised in the day to day activities of the Building Products Group. The total value of operational land is around \$368 million¹⁵, due primarily to valuable land held within New South Wales and Western Australian operations.

Operational Land	Gross Land Area (ha)			Book Value (\$m)	Valuation (\$m)
	FY16	FY15	Change		
NSW	486	435	51	47	163
VIC	567	567	-	23	23
QLD	464	470	(6)	29	41
WA	1,968	1,781	187	40	128
SA & TAS	272	272	-	7	13
Total	3,757	3,525	232	146	368

During the year a 51 hectare parcel of industrial land adjoining Brickworks existing quarry was purchased at Berrima. In addition the 187 hectare Cardup site in Western Australia was re-classified as operational land as a result of the works in progress to re-start this facility.

¹⁵ In addition to operational land values shown, book value of buildings is around \$102 million

Land & Development Outlook

Development activity in the Property Trust in financial year 2017 will be extremely strong, with a number of new developments at both the Oakdale Central and Rochedale estates. At Oakdale Central in New South Wales, a total of 83,945m² of new developments will be commenced during FY2017, whilst at Rochedale in Queensland 63,000m² will be commenced.

	Asset Value (\$m)	Gross Lettable Area (m ²)	Gross Rental (\$m p.a.)	WALE (yrs)	Cap. Rate
Current Leased Assets	787.3	426,184	51.1	6.1	6.4%
New developments at Oakdale	149.4	83,945	9.4	8.2	6.4%
New developments at Rochedale	111.3	63,000	6.8	13.2	6.1%
Future Leased Assets¹⁶	1,048.1	573,129	67.3	7.1	6.3%

Once completed, these new developments will contribute in excess of \$16 million in gross rental income to the Property Trust (greater than the \$15.1 million rent received from the Coles CDC facility). Together with the significantly lower interest payments within the Property Trust, net trust income attributable to Brickworks will grow strongly over the next two years.

Medium term growth is also expected to be strong with further expansion to be focussed on the remaining land at Oakdale Central (2.8 hectares) and Rochedale (7.0 hectares), followed by the vast Oakdale South Estate.

At Oakdale South, 28 hectares of land sales were secured in financial year 2016, subject to DA approval and conditions. This includes a 6.4 hectare parcel to Toyota Motor Corporation Australia and 7.0 hectares to Sigma Pharmaceuticals, and will generate sales to the Property Trust of around \$90 million late in 2017. These sales will underpin the commencement of infrastructure to the entire 70 hectare estate, opening up 43 hectares of land to meet the pre-commitment market. Development of this land is likely to extend for around five years.

Looking further ahead, planning work is also well underway for the Oakdale West site, owned by Brickworks, with a State Significant Development Applications for this 100 hectare (developable area) property lodged by early October 2016. The first section of this property will then be ready for sale into the Property Trust in financial year 2017, generating a land sale profit to Brickworks. Development of this site within the Property Trust will then likely extend for up to a decade from 2020.

¹⁶ Excludes land to be developed and any changes in value of current leased assets

Investments

The underlying EBIT from total investments was up 8.6% to \$59.6 million in the year ended 31 July 2016.

Washington H. Soul Pattinson Limited ('WHSP')

ASX Code: SOL

Brickworks Group's investment in WHSP returned an underlying contribution of \$59.1 million for the year ended 31 July 2016, up 8.3% from \$54.6 million in the prior year. This was due primarily to an increase in earnings from TPG Telecom.

The market value of Brickworks 42.72% share holding in WHSP was \$1.782 billion at 31 July 2016, up \$381.4 million from \$1.401 billion at 31 July 2015. This investment continues to provide diversity and stability to earnings, with cash dividends totalling \$52.2 million received during the year, up 4.2% on the prior period.

WHSP has delivered outstanding returns over the long term, with fifteen year returns of 12.6% per annum to 31 July 2016 being 4.5% ahead of the All Ordinaries Accumulation Index.

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

The investment in WHSP has been an important contributor to Brickworks' 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 Brickworks' Building Products and Land divisions.

Investments Outlook

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

Brickworks Group Outlook

Building Products earnings for the 2017 financial year will be underpinned by a full order book and a long pipeline of work at higher margins in our major east coast markets. Land and Development earnings will be supported by the sale of Oakdale West into the Property Trust, and an unprecedented level of development activity within the Trust. Investment earnings are expected to deliver steadily increasing earnings and dividends over the long term.

LINDSAY PARTRIDGE
MANAGING DIRECTOR