BRICKWORKS
LIMITED

22 March 2018

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 2018 updated to reflect the changes as highlighted in yellow on page 11, for immediate release to the market.

Yours faithfully

BRICKWORKS LIMITED

Susan Leppinus

Company Secretary

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BRICKWORKS

LIMITED

REVIEW OF RESULTS

1ST HALF ENDED 31 JANUARY 2018

Released: 22nd March 2018

BRICKWORKS LIMITED - REVIEW OF RESULTS

1st HALF ENDED 31 JANUARY 2018

RECORD UNDERLYING NPAT, DIVIDEND UP 5.9%

$ MILLIONS	Jan 17 6 mths	Jan 18 6 mths	Variance %
REVENUE			
Building Products	370.2	396.2	7.0
Property	58.6	0.4	(99.3)
Other	0.1	0.2	100.0
Total	**428.9**	**396.7**	**(7.5)**
EBIT			
Building Products	33.3	39.3	18.0
Property	67.2	49.5	(26.3)
Associates & Investments	47.6	60.9	27.9
Other & H.O.	(5.8)	(6.9)	(19.0)
Total EBIT (before significant items)	**142.2**	**142.8**	**0.4**
Total EBITDA (before significant items)	**156.1**	**157.1**	**0.6**
Borrowing costs	(5.8)	(6.0)	(3.4)
Underlying tax expense	(25.3)	(21.1)	16.6
Underlying NPAT	**111.2**	**115.6**	**4.0**
Significant items (net of tax)	(7.2)	(18.6)	(158.3)
Statutory NPAT	**104.1**	**97.0**	**(6.8)**
PER SHARE ANALYSIS			
Underlying earnings per share (cents)	74.7	77.5	3.7
Statutory earnings per share (cents)	69.8	65.0	(6.9)
Interim ordinary dividend (cents)	**17.0**	**18.0**	**5.9**
Share price 31 Jan 18 vs Jul 17	13.20	14.21	7.7
Net tangible assets (NTA) vs Jul 17	11.77	12.03	2.2
Share price / NTA (times)	1.12	1.18	5.4

Annual TSR (to 31 Jan 18)	**1 Year**	**3 Years**	**5 Years**	**10 Years**	**15 Years**
Brickworks Limited	16.2%	9.1%	5.8%	5.8%	8.6%
All Ords Accum Index	13.0%	8.0%	9.2%	5.2%	9.6%
Outperformance	**3.2%**	**1.1%**	**(3.4%)**	**0.6%**	**(1.0%)**

Between 1st Feb and 20th March, the BKW share price has increased 7.6% (-0.3% for the Index)

RECORD UNDERLYING NPAT, DIVIDEND UP 5.9%

Highlights

- Statutory NPAT including significant items down 6.8% to $97.0 million
- Underlying NPAT before significant items up 4.0% to $115.6 million
  - Building Products EBIT up 18.0% to $39.3 million (EBITDA $53.6 million)
  - Property EBIT down 26.3% to $49.5 million, net trust assets up $31 million
  - Investments EBIT up 27.9% to $60.9 million
- Operating cash flow up 49.0% to $74.2 million
- Gearing remains conservative at 15.8%
- Total shareholder's equity now exceeds $2 billion
- Interim dividend of 18.0 cents per share, up 5.9%

Overview

Brickworks Group (ASX: BKW) posted an underlying Net Profit After Tax ('**NPAT**') for the half year ended 31 January 2018 of $115.6 million, up 4.0% on the previous corresponding period. Statutory NPAT of $97.0 million was down 6.8% from $104.1 million for the half year ended 31 January 2017.

On record sales revenue of $396.2 million, **Building Products'** Earnings Before Interest and Tax ('**EBIT**') was $39.3 million, up 18.0% on the previous corresponding period (EBITDA was $53.6 million, up 13.8%). The uplift in earnings was primarily due to another strong performance from Austral Bricks, on the back of elevated demand on the East Coast.

Property EBIT was $49.5 million for the first half, including a significant increase in Joint Venture Industrial Property Trust[1] ('Property Trust') earnings, following the completion of 3 development projects during the period. During the half, Brickworks' share of the net asset value within the Property Trust increased by a further $31 million and now exceeds $500 million.

Investments EBIT was up 27.9% to $60.9 million. This was due to improved regular contributions from six of Washington H Soul Pattinson's ('WHSP') eight major investments, with New Hope Corporation delivering a particularly strong increase in earnings.

Underlying Earnings Per Share ('**EPS**') was 77.5 cents, up 3.7% on the previous corresponding period. Statutory EPS was 65.0 cents, down 6.9%.

Directors have declared a fully franked interim **dividend** of 18.0 cents per share for the half year ended 31 January 2018, up 5.9% from 17.0 cents. The record date for the interim dividend will be 10 April 2018, with payment on 1 May 2018.

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

Financial Analysis

Gearing (net debt to equity) was 15.8% at 31 January 2018, up from 14.9% at 31 July 2017. Total interest bearing debt increased to $335.2 million and **net debt** increased to $317.5 million at 31 January 2018. Net debt to capital employed was 13.6% at the end of the period.

Following the end of the period Brickworks entered into a $100 million **Institutional Term Loan** ('ITL') unsecured syndicated debt facility, with tranches of 8 and 10 years. The ITL (arranged by NAB) comprises 8 institutional investors represented by 3 asset managers, and enables the Group to diversify its funding base at competitive rates and access this developing, longer tenor market.

Total borrowing costs were up 3.4% to $6.0 million and underlying interest cover was a conservative 20 times at the end of the period.

Net working capital was $199.3 million at 31 January 2018, up marginally compared to 31 July 2017, with **finished goods inventory** increasing by $2.6 million. Excluding the impact of the UrbanStone acquisition, finished goods inventory was down $1.0 million, with a reduction in finished goods units in all divisions being partially offset by the impact of stock revaluations.

Total **cash flow from operating activities** was $74.2 million, up from $49.8 million in the previous corresponding period, due primarily to the increased earnings from Building Products and lower income tax payments.

Building Products **capital expenditure** was $25.8 million, including stay-in-business capital expenditure of $13.3 million, approximately in line with depreciation. Spend on major projects totalled $12.5 million, primarily consisting of upgrades to the Rochedale brick plant in Queensland, the Cardup brick plant in Western Australia, and the installation of a large log line at the Greenbushes timber mill, also in Western Australia.

Statutory **income tax** was $29.0 million for the period. The underlying income tax expense decreased to $21.1 million.

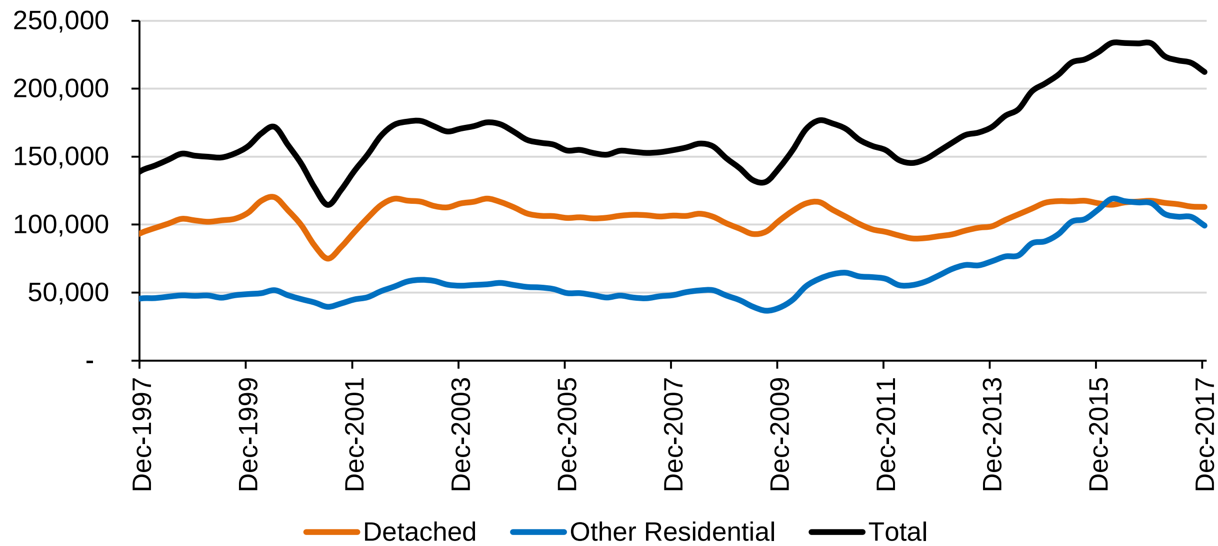
Net tangible assets ('NTA') per share was $12.03 at 31 January 2018, up from $11.77 at 31 July 2017 and total shareholders' equity was up $45.9 million to $2.014 billion.

Significant items reduced NPAT by $18.6 million for the period. This comprised:

- A $9.2 million cost due to the income tax expense in respect of the equity accounted WHSP profit, less the franking credits associated with the dividends received during the period, and adjusted for the movements in the franking account and the circular dividend impact;
- A $6.3 million cost attributable to Brickworks share of reported WHSP significant items, made up primarily of tax on equity accounted associates, partially offset by a profit on Investment Portfolio sales; and
- $3.1 million in after-tax costs relating to Building Products, including the net cost associated with commissioning upgraded plants in Western Australia and Queensland ($1.2 million), restructuring activities within Austral Bricks Western Australia and Auswest Timbers ($1.1 million), and business acquisition costs and other legal and advisory costs ($0.8 million).

Building Products

Market Activity – Moving Annual Housing Commencements (‘000s)



Housing commencements in Australia remain at elevated levels, with annualised total commencements continuing to track above 200,000, a level not seen prior to 2014. Although total dwelling commencements were down 7.2% for the six months ended 31 December 2017, this decrease is measured against the record peak achieved in the prior corresponding period.

The decline in activity was caused primarily by an 11.6% reduction in other residential commencements, following unprecedented growth in this segment in recent years. In detached housing, where Brickworks’ products have the greatest exposure, construction activity has remained near historical peak levels for around four years, with further increases limited by trade availability, construction bottlenecks and materials supply constraints in some areas.

Conditions in **New South Wales** remain strong, albeit down slightly on the record high level of one year ago. In this state both detached housing and other residential activity remains at historically high levels following many years of low activity in the 2000’s.

In **Victoria** residential building also remains extremely strong. Both detached housing and other residential activity remain at near record levels following a number of years of growth.

Queensland continues to experience steady growth in detached housing activity since the low point in 2011, with annualised detached housing starts of almost 25,000 (to December 2017). However other residential commencements are in decline, having fallen around 20% from the peak level experienced during 2016.

Weakness in **Western Australia** persisted during the period, with both detached houses and other residential activity continuing to decline, albeit at a slower rate. Building activity in this state is now down by over 40% in the past three years, and detached house commencements are at their lowest level for over 15 years.

Non-residential approvals in Australia increased by 15.6% to $24.965 billion for the six months to 31 December 2017. Within the non-residential sector, **Commercial** building approvals increased by 7.5% to $9.489 billion, **Industrial** building approvals increased 41.3% and the **educational** sub-sector, an important driver for bricks and masonry demand, was up 47.2%.

Overview of Building Products Result

Half Year Ended January		2017	2018	Change %
Revenue	$mill	370.2	**396.2**	7.0
EBITDA	$mill	47.1	**53.6**	13.8
EBIT	$mill	33.3	**39.3**	18.0
Capital Expenditure	$mill	36.2	**25.8**	(28.7)
EBITDA margin	%	12.7	**13.5**	7.1
EBIT margin	%	9.0	**9.9**	10.0
Net Tangible Assets	$mil	663.4	**664.5**	0.2
Return on Net Tangible Assets	%	10.0	**11.8**	18.0
FTE Employees[2] (vs. Jul 17)		1,510	**1,505**	(0.4)
Safety (TRIFR)[3]		16.9	**20.7**	22.5
Safety (LTIFR)[4]		2.0	**2.1**	5.0

Revenue for the half year to 31 January 2018 was up 7.0% to a record $396.2 million. The first half of 2018 saw continued strong demand for building materials in the major East Coast markets of New South Wales and Victoria, partially offset by a further decline in demand in Western Australia.

EBIT was $39.3 million, up 18.0% on the prior corresponding period, and **EBITDA** was $53.6 million. The uplift in earnings was primarily due to another strong performance from Austral Bricks. In addition, Western Australian operations enjoyed a recovery in earnings due to re-structuring activities implemented in the last financial year, despite the further decline in demand and sales volume.

New gas and electricity contracts took effect from 1 January 2018 on the East Coast. With weighted average price increases of circa 20% for gas and 30% for electricity, the manufacturing cost increase equates to around $1 million per month on a like-for-like basis. Price increases and efficiency improvements have already been implemented to fully offset this additional cost impost.

The company's investment in marketing and branding was further expanded during the period, with direct marketing costs increasing compared to the prior corresponding period. This includes a major advertising campaign, together with the company's successful investment in design studios across the country. This sustained investment over many years to position Brickworks as the leading style brand in the industry has supported the growth of premium, higher priced products across all divisions.

Full-time equivalent **employee** numbers were down slightly to 1,505 compared to 1,510 at 31 July 2017. The addition of 66 employees following the acquisition of UrbanStone was offset by a

[2] Excludes casual employees
[3] Total Reportable Injury Frequency Rate (TRIFR) is the total number of reportable injuries per million hours worked
[4] Lost Time Injury Frequency Rate (LTIFR) is the number of lost time injuries per million hours worked

reduction in Austral Precast, following the closure of the Dandenong facility in Victoria, and a decrease in Austral Bricks Western Australia following restructuring initiatives.

There were 3 Lost Time **Injuries** ('LTIs') during the half, unchanged from the previous corresponding period. This translates to a Lost Time Injury Frequency Rate ('LTIFR') of 2.1, compared to 2.0 for the prior period. The Total Reportable Injury Frequency Rate ('TRIFR') increased to 20.7 from 16.9 in the prior period.

Divisional Analysis

Austral Bricks delivered an 18.9% increase in earnings for the six months ended 31 January 2018, with sales revenue up 8.4% to $215.0 million on relatively stable national sales volume.

Performance was strong across all markets, with every state achieving higher earnings. A focus on unit margins has delivered pleasing results, with initiatives including:

- Innovation and development of premium products;
- Additional resources added to the product selection process;
- A dedicated country sales force; and
- Close collaboration with architects to develop bespoke and customised brickwork, especially in medium and higher density developments.

Buoyant market conditions supported an increase in sales volume in New South Wales and Victoria. The increase in these states was offset by a decline in sales volume in Western Australia. This stark contrast in conditions provided an opportunity to transport in excess of 8 million bricks from Western Australia to the East Coast during the period, thereby reducing inventory in the west whilst allowing Austral Bricks to meet the booming East Coast demand.

Western Australia produced a positive EBITDA result, despite the difficult conditions in this state, and further improvements are anticipated following the successful commissioning of the Cardup plant during the period.

Following the continuous operation of the Wollert "East" kiln in Victoria for almost a decade, a six week shut-down during January and February was undertaken to complete necessary maintenance and upgrade works. In order to meet customer requirements a stock build was required prior to the shut-down, that has now been run off. Since its construction, the new Wollert facility continues to operate ahead of original expectations.

The final phase of upgrades at the Rochedale plant was completed during the period. Work included the installation of a new packaging line and the re-commissioning of the second kiln (previously mothballed). These upgrades complete a multi-year refit program to significantly improve product quality and lower unit production costs.

In terms of scale, quality and efficiency, this plant now ranks amongst the best worldwide. Following the upgrades, the first kiln remains available for production, resulting in the total capacity in Queensland returning to historical levels and providing valuable "swing capacity" for periods of peak demand across the East Coast.

Focus for capital investment has now turned to New South Wales, where there has been limited major capital expenditure for over twenty years. Preliminary work has commenced on a new facility at Brickworks industrial estate at New Berrima to replace the Bowral facility, an energy intensive plant with some parts having been in operation since the 1920's.

Also under consideration is the future operational footprint within the Horsley Park precinct, where Austral Bricks currently has 3 plants in operation. Planning and capital works in this precinct will be phased over a number of years.

Austral Masonry earnings were lower, despite an 18.7% increase in sales revenue to $52.0 million for the half. Excluding UrbanStone, revenue was up 8.3% on a like-for-like basis.

An improved result was delivered in New South Wales, due in part to a significant increase in sales of higher margin retaining wall products in both the residential and commercial sectors, including approximately four kilometres of keystone walling at Oakdale South. However, these gains were more than offset by a decline in earnings in Queensland, due to the slowdown in apartment construction in Brisbane and difficult conditions in North Queensland.

The integration of UrbanStone in Western Australia has progressed well since the completion of the acquisition in November. Sales volume has been strong, underpinned by an order book comprising a number of large commercial projects. A range of initiatives are underway to further increase sales, including a targeted marketing campaign and the roll out of UrbanStone's premium paving products into Brickworks network of display centres and design studios across the country.

In New South Wales planning is now well underway for an investment in a new state of the art facility also at New Berrima. This facility will replace the existing plant at Prospect where Austral Masonry's lease expires in December 2020.

Bristile Roofing earnings increased on the prior half, with sales revenue up 14.2% to $66.9 million. Like-for-like revenue growth was 8.5%, after excluding the impact of acquired operations in Victoria.

Earnings were higher across all East Coast states, driven by increased sales volume and lower manufacturing costs, following the first phase of upgrade works completed at the Wacol plant in Queensland. Despite the increased demand, margins on the East Coast are under pressure due to strong competition.

The continued difficult conditions in Western Australia resulted in decreased sales and earnings in this state. Following the closure of the Caversham plant, the Western Australian market is now primarily being serviced by high quality imported terracotta tiles from La Escandella in Spain.

Bristile continues to focus on expanding its product offering to include a full range of roofing solutions that provide growth opportunities in the years ahead. Following the acquisition of a number of metal roofing and fascia and gutter installers over the past 2 years, metal sales now make up 16% of total Bristile Roofing revenue.

Consistent with this full-service strategy, Bristile Solar was launched in August 2017, offering premium solar roof-tiles and conventional bolt-on systems for existing homes or new residential builds. Through an exclusive agreement in place with Sonnen, the world's largest producer of battery and solar energy storage systems, Bristile Solar is able to offer home owners a full energy management system. Sonnen have recently announced plans to establish a manufacturing facility in South Australia to service the Australian market.

Market feedback since the launch has been strong, with a significant initial contract with a major builder already secured. The Bristile Solar package will be offered in conjunction with Bristile tiles and is expected to attract new customers and support increased roof tile sales volume.

Austral Precast earnings were relatively stable, despite a 15.5% decrease in revenue to $34.8 million for the period. The decline in revenue was due to the closure of the Victorian facility and the slow down in high rise multi residential development in Brisbane, significantly impacting sales in this market.

Demand in New South Wales is particularly strong, with the order book at the end of the period equivalent to approximately 12 months sales. This includes major project wins such as the Clarence Correctional Centre in Grafton (circa $18 million value and 5,000 panels) and the M4 East project in Sydney (circa $4 million value and 1,100 panels).

In October, Austral Precast operations in Dandenong, Melbourne were closed. Employee wage rates at this heavily unionised facility were approximately double those elsewhere across the country. This resulted in the business being uncompetitive when bidding for work on non-unionised job sites, effectively distorting the Melbourne precast market.

Auswest Timbers earnings were also relatively stable, with revenue down 5.2% to $23.5 million for the half. Improved earnings were recorded in Western Australia, following restructuring activities completed in the prior year. During the period, upgrade activities continued with the installation of a large log line at Greenbushes. Commissioning of this line is now almost complete, positioning this business for continued improvement in the second half.

Operational issues again hampered the Victorian operations, due to decreasing log size impacting recovery at Orbost and downstream processing at Bairnsdale. While a new log contract has been entered into with VicForests, the Victorian Government agency has encountered a number of legal, environmental and operational challenges supplying the requested mix of log under this contract. Efficient processing of the future log mix requires significant investment and these investment options are urgently being assessed, however the deteriorating log input quality and uncertain future supply mix threatens the viability of these investments.

Demand for structural pine in Australia is at unprecedented levels, placing pressure on log supply to the roof tile batten mill in Fyshwick. Auswest is currently seeking additional log supply volume beyond the existing term in order to ensure the mill can continue to meet the strong demand.

Property

Overview of Property Result

Half Year ended January ($million)	2017	2018	Change %
Net Trust Income	8.9	**10.7**	20.1
Revaluation of properties	6.8	**7.1**	4.7
Development Profit	2.9	**33.5**	>500
Sale of assets	0.3	**-**	N/A
Property Trust	**18.8**	**51.2**	**171.9**
Property Sales	50.1	**-**	N/A
Property Admin and Other	(1.8)	**(1.7)**	(1.3)
Total	**67.2**	**49.5**	**(26.3)**

Property produced an EBIT of $49.5 million for the half year ended 31 January 2018, down 26.3% from $67.2 million for the prior period.

The decrease in earnings was due to no **land sales** being recorded during the period, compared to the prior corresponding period that included the sale of Oakdale West into the Property Trust ($50.1 million EBIT contribution).

The **Property Trust** delivered an EBIT of $51.2 million, up 171.9% from $18.8 million in the prior corresponding period. The increase was largely due to the development profit realised following the completion of three development projects, providing $33.5 million EBIT.

Revaluation profit contributed EBIT of $7.1 million, up 4.7% from the prior period, due primarily to the revaluation of land at Oakdale South. This property is now ready for development following the completion of infrastructure works at the end of 2017.

Net property income distributed from the Trust was $10.7 million, an increase of 20.1% from $8.9 million in the prior corresponding period. This benefitted from two new facilities at Oakdale Central and one at Rochedale, all completed in mid 2017.

Property administration **expenses** totalled $1.7 million, down marginally on the prior half. These expenses include holding costs such as rates and taxes on properties awaiting development.

Property Trust Assets

The total value of leased assets held within the Property Trust at 31 January 2018 was $1.087 billion. 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 from the Property Trust is $67.2 million, average capitalisation rates are 6% and there are currently no vacancies.

Summary of Leased Property Trust Assets

Estate	Asset Value ($m)	Gross Lettable Area (m^2)	Gross Rental ($m p.a.)	WALE[5] (yrs)	Cap. Rate
M7 Hub (NSW)	127	64,125	8.3	2.7	6.0%
Interlink Park (NSW)	383	192,207	23.9	4.1	6.1%
Oakdale (NSW)	411	207,021	24.8	6.0	5.8%
Rochedale (QLD)	166	95,636	10.2	13.4	6.3%
Total	**1,087**	**558,989**	**67.2**	**6.0**	**6.0%**

Including $443 million of land to be developed, the total value of assets held within the Property Trust at 31 January 2018 was $1.530 billion. With borrowings of $510 million, the total net asset value of the Property Trust is $1.022 billion. Brickworks’ share of net asset value was $511 million, up $31 million from $480 million at 31 July 2017. The increase in value during the half is due to the completion of three new facilities.

The total return on the leased property assets in the Trust, including the revaluation profit was 11.8% during the period.

$million	Jul 2017	Jan 2018	Change %
Leased properties	878	**1,087**	23.8%
Land to be developed	523	**443**	(15.3%)
Total Property Trust assets	**1,401**	**1,530**	**9.2%**
Borrowings on leased assets	(408)	**(483)**	(18.4%)
Borrowings on developments	(34)	**(26)**	23.5%
Net Property Trust assets	**960**	**1,022**	**6.5%**
Brickworks 50% share	**480**	**511**	**6.5%**
Rental return on leased assets[6]	7.8%	**7.1%**	(0.7%)
Revaluation return on leased assets[7]	6.1%	**4.7%**	(1.4%)
Total return on leased assets	**13.9%**	**11.8%**	**(2.1%)**
Gearing on leased assets[8]	46.5%	**44.4%**	(2.1%)

[5] Weighted average lease expiry
[6] Based on annualised Net Trust Income, divided by Brickworks share of leased properties less associated borrowings
[7] As above, but using annualised revaluation profit
[8] Borrowings on leased assets / total leased assets

Investments

The EBIT from Investments was up 27.9% to $60.9 million in the half year ended 31 January 2018.

Washington H. Soul Pattinson Limited ('WHSP')

ASX Code: SOL

The investment in WHSP returned an underlying contribution of $60.8 million for the half year ended 31 January 2018, up 28.0% from $47.5 million in the previous corresponding period. This was due primarily to an increase in earnings from New Hope Corporation.

The market value of Brickworks 42.72% share holding in WHSP was $1.762 billion at 31 January 2018, down $41.9 million from $1.804 billion at 31 July 2017.

This investment continues to provide diversity and stability to earnings, with cash dividends of $32.7 million received during the half, up 3.2% on the prior period.

WHSP has delivered outstanding returns over the long term, outperforming the ASX All Ordinaries Accumulation Index by 2.4% p.a. over fifteen years and 6.7% p.a. over ten years.

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

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 and cash flow from Building Products and Property.

Strategy

Corporate Strategy

Brickworks has a diversified corporate structure, comprising operating divisions in Building Products and Property and a strategic investment in WHSP.

This diversified structure provides Brickworks with a combination of stability and growth in earnings, cash flow and net asset value that has delivered considerable value to shareholders over the long term.

Building Products includes the heritage Austral Bricks business, founded in 1908. Austral Bricks has a long and proud history and has grown to become the largest and most successful brick business in the country, delivering strong returns on capital invested across the building cycle. In more recent times, the Building Products division has diversified into additional products and markets to become one of Australia's largest manufacturers and distributors of building products.

Building Products operations include significant land holdings, typically located on the outskirts of Australia's major cities. Over time as the urban sprawl expands, these land assets become increasingly valuable, sometimes as a result of rezoning to industrial or residential land use. As such the Property division is a natural extension to Building Products, and is focussed on maximising the value of surplus land assets as they become available or rezoned.

The creation of the 50/50 Joint Venture Property Trust with the Goodman Group a decade ago allows the company to maximise the long term value of industrial land. This strategic partnership with the Goodman Group has many benefits to Brickworks, including access to the country's leading experts in industrial property development and planning, and the necessary funds to carry out development work. Meanwhile, the Goodman Group benefit from a steady flow of appropriately zoned industrial land in prime locations across the country. The overwhelming success of this strategic partnership is evidenced by the Joint Venture's growth in net asset value to over $1 billion.

Whilst the Joint Venture is considered a core long-term strategic asset for Brickworks, it also maintains an active asset management approach. This is demonstrated by the recent sale of selected assets in response to attractive valuation metrics and appropriate opportunities becoming available.

The investment in WHSP is also a core long-term strategic asset for Brickworks, providing diversification of earnings, significant value creation and steadily increasing cash dividends. A recent example of the benefit of this diversification is Brickworks' indirect exposure to rising coal prices through New Hope Corporation. This has delivered increased earnings from Investments, at a time of higher gas prices in the Building Products division.

The investment in WHSP has created significant value for shareholders over the long term. The market value of Brickworks' holding in WHSP has grown from $30 million in 1983[9], when Brickworks last acquired shares in WHSP, to $1.762 billion at the end of January 2018. In addition fully franked cash dividends now total over $54 million per year.

Brickworks' diversification strategy and investment approach has delivered stability of earnings and consistently increasing net asset value over the long term, and helped to deliver solid and reliable returns to our shareholders.

[9] Brickworks acquired WHSP shares over the period 1969-1983

Building Products Strategy

Building Products continues to make good progress on its strategy to secure market-leading positions and grow earnings over the long term. This strategy has three key objectives:

1. Strengthen the core business
    - Operations excellence, to secure lowest cost and highest quality products;
    - Acquire complementary businesses;
    - Build industry-leading customer relationships; and
    - Invest in style and product leadership
2. Build growth businesses
    - Invest in affiliated businesses;
    - Distribute market leading products; and
    - Create better building solutions
3. Sustaining our strong culture

Construction of the **Southern Cross Cement** import terminal in Brisbane has now commenced and is expected to be fully installed and commissioned in the 2019 financial year. This strategic investment will strengthen Building Products' core business, by securing high quality and low cost raw material supply for our Austral Masonry, Bristile Roofing and Austral Precast operations, thereby underpinning our lowest cost objective in these businesses. Investment returns will be underpinned by the competitive cost structure of the facility and shareholder volume throughput of over 200,000 tonnes of cement per year.

The acquisition of UrbanStone in November was a logical bolt-on to our existing masonry business, providing additional scale and diversifying our product range and geographic exposure. Importantly, the acquisition also allows Building Products to expand its premium product offering, in line with Brickworks' strategy to invest in style and product leadership.

Developing industry-leading customer relationships is an ongoing priority for Brickworks. Capital city design studios across the country have hosted hundreds of events, attracting thousands of customers, architects and other key influencers. These studios have now become a focal point for the local architectural and design community.

In Sydney, a new design studio was launched in March, with an expanded showroom and event space to cater for the growing demand for speaking events and industry functions. This strategy continues to deliver results, including increased penetration of Brickworks' products in several key markets such as high rise and commercial developments. Construction will soon commence on a new studio on Collins Street in Melbourne that is expected to be officially opened later in 2018.

International partnerships with leading manufacturers allow us to secure additional earnings growth by offering customers a wider range of unique and premium products. Sales of these products continue to increase, buoyed in the first half by a new supply agreement with Italian manufacturer S. Anselmo for a unique range of sandstock bricks. In addition, a new range of ultra premium glass bricks was launched in March, through a partnership with Italian manufacturer Poesia.

Building Products continues to take a prudent approach to major growth investments. The availability of attractive investment opportunities in Australia is limited by a range of factors including exorbitant energy prices, high company tax rates, slow building and development approval processes with excessive red tape, and a failure to rein-in disruptive unions. As such, the company will consider offshore expansion opportunities, including in North America where business conditions are significantly more attractive.

Outlook

Building Products

Building activity across the East Coast remains elevated and continues to drive strong demand. In New South Wales and Victoria there remains a significant pipeline of work that has translated to a very strong order book in these states.

Conditions in Western Australia remain difficult, although they appear to have bottomed, and a range of restructuring initiatives and capital projects has resulted in improved performance that is expected to continue in the second half.

New energy contracts on the East Coast at significantly higher prices came into force on 1 January 2018. Price rises and efficiency improvements will fully offset this additional cost impost in the second half. However, further gas price increases on 1 January 2019 will result in an additional $9 million cost increase. The company continues to investigate a range of cost mitigation strategies to minimise any further flow on price increases to our customers. These include investments in new fuel-efficient kilns, the use of alternative fuel sources, increasing imports and offshore manufacturing.

Overall the short to medium term outlook for Building Products remains strong, with already implemented price increases, the strong order book on the East Coast, and the restructuring initiatives undertaken in the west expected to underpin 2018 earnings, despite the significant impost of higher energy costs in the second half.

Property Trust

The outlook for the Property Trust is also strong, with developments at Oakdale in New South Wales and Rochedale in Queensland expected to drive growth in rent and asset value over both the short and longer term:

- The **Oakdale Central Estate** will be fully completed in April 2018 following the delivery of a 36,870m^2 facility for Reckitt Benckissor.
- At **Rochedale**, the southern section of the Estate is now fully occupied. Activity is now focussed on the remaining 6 hectare lot where over 35,000m^2 of mixed-use buildings will be developed.
- Completion of infrastructure works at the **Oakdale South Estate** during the 2nd half of the financial year will trigger settlement on 30.3 hectares of land (with sale contracts executed in financial year 2016), providing $100 million in gross receipts to the Property Trust on sale. Construction work has already commenced at this Estate, with a 19,500m^2 facility for Iron Mountain and a 14,500m^2 facility for Briggs and Stratton, well underway and due for completion at the end of 2018.
- Last year's sale of **Oakdale West** into the Property Trust provides medium and longer-term growth potential. Solid progress has been made on the development approval for the site, which was lodged in late 2017 and has now come off exhibition and is under assessment. Once development approval is achieved, expected in mid-2018, development of this site is likely to extend for up to a decade.

Property Sales

The company is considering a range of strategies to generate earnings from property sales and development activities to supplement the strong earnings outlook from the Property Trust. Expressions of interest are currently being sought in respect of the Punchbowl brick manufacturing site in New South Wales, on a long-term lease-back basis (to Austral Bricks). Pending satisfactory offers on this 9-hectare site, a sale may occur later this calendar year.

Aside from the Punchbowl site, there will be limited additional major land sales opportunities for Brickworks in the short term.

Investments

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.

LINDSAY PARTRIDGE
MANAGING DIRECTOR