

BRICKWORKS

LIMITED

ABN 17 000 028 526



HIGHLIGHTS

- ▶ **Statutory NPAT** including significant items, down 5.8% to \$175.4 million
- ▶ **Underlying NPAT** before significant items up 13.9% to \$223.7 million
- ▶ **Building Products EBIT** up 16.8% to \$76.0 million (EBITDA \$105.4 million)
- ▶ **Property EBIT** up 3.7% to \$94.0 million
- ▶ **Investments EBIT** up 19.8% to \$123.5 million
- ▶ **Gearing (net debt/equity)** of 14.7%, net debt \$303.8 million
- ▶ **Final dividend** of 36 cents fully franked, up 2 cents or 5.9%
- ▶ **Total full year dividend** of 54 cents fully franked, up 3 cents or 5.9%

Review of RESULTS

Full year ended July 2018

Five Year SUMMARY

	2014 \$000	2015 \$000	2016 \$000	2017 \$000	2018 \$000	Growth %
Total revenue	670,268	723,611	750,985	841,816	821,084	(2%)
Building Products revenue	636,895	700,871	748,128	763,338	819,980	7%
Earnings before interest and tax						
Building products	45,081	56,364	75,381	65,036	75,950	17%
Property	61,013	61,735	72,105	90,588	93,979	4%
Waste management	1,414	2,649	1,346	—	—	—
Investments	262	280	442	224	1,053	370%
Associates	44,382	54,574	59,117	102,873	122,445	19%
Head office and other expenses	(8,945)	(9,699)	(12,479)	(12,432)	(13,666)	(10%)
Total EBIT	143,207	165,903	195,912	246,289	279,761	14%
Total EBITDA	168,132	191,133	223,313	274,140	309,163	13%
Finance costs	(18,073)	(19,482)	(14,080)	(12,436)	(14,456)	(16%)
Income tax	(23,845)	(26,122)	(34,753)	(37,428)	(41,575)	(11%)
Net profit after income tax (excluding significant items)¹	101,289	120,299	147,079	196,425	223,730	14%
Significant items net of tax	1,466	(42,209)	(68,889)	(10,215)	(48,288)	
Net profit after income tax (including significant items)	102,755	78,090	78,190	186,210	175,442	(6%)
Per share earnings and dividends						
Basic earnings per share (cents)	69.4	52.6	52.6	124.9	117.5	(6%)
Underlying earnings per share (cents) ¹	68.4	81.1	98.9	131.8	149.8	14%
Ordinary dividends per share (cents)	42.0	45.0	48.0	51.0	54.0	6%
Ratios						
Net tangible assets per share	\$10.32	\$10.59	\$10.95	\$11.77	\$12.42	5%
Return on shareholders equity	5.7%	4.3%	4.3%	9.5%	8.5%	(10%)
Underlying return on shareholders equity ¹	5.6%	6.6%	8.0%	10.0%	10.8%	8%
Interest cover ratio	7.3	9.7	14.4	16.7	18.0	7%
Gearing (net debt to equity)	17.0%	16.6%	14.6%	14.9%	14.7%	(2%)

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

Chairman's LETTER

On behalf of your Board of Directors, I am delighted to present Brickworks' Annual Report for the 2018 financial year. The strong financial and operational performance of the Company during the past year is extremely pleasing and another clear indicator that we have the right strategy and corporate structure in place to deliver earnings growth and strong shareholder returns.

2018 HIGHLIGHTS

Brickworks reported a statutory net profit after tax (NPAT) of \$175.4 million, down 5.8% on the previous year. Excluding the impact of significant items, our underlying NPAT was a record \$223.7 million, up 13.9%. This marks the sixth consecutive year of growth in underlying NPAT.

Each of the Company's three segments delivered an increase in earnings compared to the prior year. Building Products earnings before interest and tax (EBIT) was \$76.0 million, up 16.8%. Property delivered another strong result, with EBIT of \$94.0 million, and EBIT from Investments was \$123.5 million.

As well as delivering record underlying earnings, the Company continues to build considerable asset value for shareholders.

During financial year 2018, net tangible assets held within Building Products increased by \$22 million, Brickworks share of net asset value within the Property Trust² increased by \$58 million, land held for resale increased by \$7 million, and the market value of Brickworks' stake in Washington H. Soul Pattinson (WHSP) increased by \$427 million. After including net debt of \$304 million, the inferred net tangible asset backing of the Group at 31 July 2018 was more than \$3.2 billion.

Since the end of the financial year, the market value of Brickworks' stake in WHSP has increased by a further \$350 million³, bringing total inferred assets to almost \$3.6 billion.

DIVIDENDS AND CAPITAL MANAGEMENT

The Directors have declared a fully franked final dividend of 36 cents per share, up 5.9% on the prior year. This brings total dividends for the year to 54 cents per share, up 3 cents or 5.9% on the prior year.

We recognise the importance of dividends to our shareholders and are proud of our strong and stable dividend history. Brickworks is one of only 9 companies in the ASX All Ordinaries index that have maintained or increased the normal dividend every year since the turn of the century.

Our borrowing level remains conservative, with gearing of 14.7%, reflecting a prudent approach to capital management. Net debt at the end of the year was relatively stable at \$303.8 million.

CORPORATE STRUCTURE

Our strong financial performance during the year again reinforced the benefit of our diversification strategy which has consistently grown net asset value over the

2 The Joint Venture Industrial Property Trust is a 50/50% partnership between Brickworks and Goodman Industrial Trust.
3 Based on the WHSP share price of \$25.24 at the close of trading on 18 September 2018.

CHAIRMAN'S LETTER

long term and helped to deliver solid returns and stability to our shareholders.

As a diversified business, we are less exposed to market volatility and are well placed to ride out the low points of business cycles. We take a long-term view of our operations, and our diversification strategy allows us to make investment decisions not for the short term, but across cycles, ensuring we are in the strongest possible position to continue to grow and succeed in the future.

Our Building Products business is the key operational division within the Group and we continue to invest in capital projects and acquisitions to enhance our competitive position and deliver improved returns.

The Property division exists to maximise the value of land that is surplus to the Building Products business, and includes a 50% share in an Industrial Property Trust with the Goodman Group. The Company is focused on continuing to build value in the Property Trust, and has re-invested cash proceeds received from land sales in recent years to support development activity. This has seen total assets within the Trust increase to more than \$1.5 billion – a significant achievement given its inception just 11 years ago.

The 42.7% interest in WHSP, with a current market capitalisation of around \$6.0 billion, provides a stable and diversified earnings stream. This investment has delivered outstanding performance over the long term, recording a total shareholder return of 13.0% per annum over the past 15 years (to 31 July 2018), 3.6% ahead of the benchmark All Ordinaries Accumulation Index.

BOARD AND GOVERNANCE

Brickworks has a strong and stable Board that is committed to acting in the best interests of shareholders and ensuring that Brickworks is well positioned for future growth.

The Board regularly reviews its capabilities and composition to ensure an optimal mix of skills, knowledge, and experience to safeguard the continued and long-term success of the Company.



As advised to shareholders at the 2016 Annual General Meeting, Mr David Gilham will not seek re-election at the 2018 Annual General Meeting. As part of our succession plan, the Company has engaged external consultants to assist with the appointment of an additional independent non-executive director, and this process is well progressed. On behalf of the Board, I would like to thank David for his 15 years of service on the Brickworks Board.

IN CONCLUSION

The continued strong performance of the Company is a credit to our almost 1,500 staff. On behalf of the Board, I would like to thank all our staff and our executive management team for their ongoing efforts and commitment. I would also like to thank my fellow directors and our shareholders for your continued support.

ROBERT MILLNER
Chairman

BRICKWORKS LIMITED

Managing Director's OVERVIEW

It gives me great pleasure to report that Brickworks has delivered another strong financial result in 2018. During the year we have also made significant progress in the implementation of a range of strategic initiatives to position the Company for further growth.

SAFETY

The health and safety of our people is our number one priority, and the Company has made steady progress in reducing the number of workplace injuries over many years. Despite lost time injuries increasing by one in 2018, to five for the year, injury rates are considerably lower than five years ago.

The Company continues to roll out best practice safety standards across all our operations, including recently acquired businesses. We are also focused on ensuring our core value of creating a "Sustainably Safe" workplace is embedded and reflected across all our operations.

We will not be satisfied until we have achieved our ultimate goal of zero harm across the business.

BUILDING PRODUCTS PERFORMANCE

Building Products recorded an EBIT of \$76.0 million in 2018, up by 16.8% on the prior year. Strong demand for our products across most operations resulted in record sales revenue of \$820.0 million.

The result was characterised by another strong performance from our east coast divisions, buoyed by continued robust demand in New South Wales and Victoria. In addition, despite a further deterioration in market activity and a wet winter period, performance in Western Australia improved following a range of restructuring initiatives.

Austral Bricks produced another strong result. The key focus of this business continues to be margin growth, including increased sales of premium products.

Close collaboration with architects to develop bespoke and customised brickwork, especially in medium and higher density developments is a key initiative to support this objective. As is the Company's investment in marketing and branding, which was further expanded during the period with a major advertising campaign, and further investment in design studios across the country.

An example of the success of this strategy is the Darling Square project in Sydney. Construction of this mixed-use high-rise development in 2018 was the culmination of over 2 years of design and product development collaboration between Austral Bricks, project architects and developers. Ultimately the project involved the supply of almost 600,000 ultra-premium bricks, with various shapes, sizes and surface finishes.

At the recent Horbury Hunt awards, which recognise excellence in the use of building products in architectural design, our products featured in four out of the six winning projects.

During the year, upgrade works were completed at the Rochedale plant in Queensland and the Cardup plant in Western Australia. In addition, overdue maintenance was carried out on the Wollert East kiln in Victoria following over a decade of near continuous operation.

This continued investment in our facilities has delivered lower manufacturing costs and allows more flexible

production, positioning the business well for sustained performance over the long term.

Bristle Roofing, Austral Precast and Auswest Timbers all delivered improved performance in 2018, whilst Austral Masonry was approximately in line with the prior year.

ENERGY SECURITY

As recently announced to the market, we have executed a new five-year wholesale gas supply agreement with Santos for our New South Wales, Queensland, Victorian and South Australian operations, commencing on 1 January 2020.

At a time of considerable uncertainty within the Australian energy market, we are pleased to secure this flexible and market competitive long-term deal, that extends until the end of 2024. This will allow Brickworks to continue its focus on operational excellence, including securing the lowest cost manufacturing position in Australia.

Our transition to the wholesale market will deliver significant advantages, particularly in regard to flexibility of supply.

BUILDING PRODUCTS STRATEGY

Our strategy to secure market-leading positions and grow earnings over the long term is supported by three key objectives: strengthen the core business; build growth businesses; and sustain our strong culture. We have made good progress on these strategic objectives during the past 12 months.

Construction of the Southern Cross Cement import terminal in Brisbane is proceeding on schedule and is expected to be fully installed and commissioned in the 2019 financial year. This investment will strengthen Building Products' core business, by securing high quality, low cost raw material supply for our Austral Masonry, Bristle Roofing and Austral Precast operations.

The acquisition of UrbanStone in November 2017 provides additional scale to Austral Masonry and diversifies our product range and geographic exposure. It also enhances our premium product offering in line with our strategy to invest in style and product leadership.

As I have already mentioned, developing industry-leading customer relationships is an ongoing priority for Brickworks. In Sydney, a new design studio was launched in March 2018, with an expanded showroom and event space to cater for the growing demand for speaking events and industry functions. Our studios have now become a focal point for the local architectural and design community.

Sales of imported products continue to increase, allowing us to secure additional earnings growth and offer our customers a wider range of unique and premium products. During the year, new supply agreements were executed with Italian manufacturer S. Anselmo for a unique range of sandstock bricks and with Italian manufacturer Poesia for ultra-premium glass bricks.

The Company continues to actively investigate acquisition opportunities to grow earnings, as well as major capital projects within existing operations to improve production efficiency.

PROPERTY PERFORMANCE

The continued strong performance of our Property division during 2018 was pleasing, delivering an EBIT of \$94.0 million and recording a sixth consecutive year of earnings growth.

Net trust income delivered by the Property Trust was \$22.0 million for 2018, up 20.2% on the prior year.

The key focus during 2018 was the continued development of the Property Trust assets across the country. In April, the Oakdale Central Estate in New South Wales was completed, following the delivery of the final facility to Reckitt Benckiser. At Rochedale in Queensland, the southern section of the estate is now fully occupied with a final 6-hectare mixed use development now under construction.

During the second half, infrastructure works were completed at the Oakdale South Estate. This delivered a significant uplift in the value of this property and also triggered the settlement on the sale of 30 hectares of land. This sale resulted in \$100 million in gross receipts to the Property Trust, and a \$25.9 million profit contribution to Brickworks.

The Property Trust has re-invested the cash proceeds received from this sale to support development activity and reduce debt held within the Trust, with Trust gearing at the end of the year down to 39%.

The Property Division is also focused on opportunities for suitable land sales outside of the Property Trust. In May we announced the sale of the Punchbowl brick site for \$41 million, via a Call Option that has now been exercised. Completion is due to occur in October. This sale includes a leaseback to Austral Bricks for 10 years, with an additional 10-year option.

INVESTMENTS PERFORMANCE

Investments consists primarily of a 42.7% stake in WHSP, a core asset of Brickworks that has brought diversity and reliable earnings to the Company for more than 40 years. Our investment in WHSP provides a cash flow stream via dividends that allows long term strategic decision making by sheltering the business during cyclical downturns.

Total EBIT from Investments was up 19.8% to \$123.5 million in 2018, bolstered primarily by improved underlying earnings from New Hope Corporation. In addition, cash dividends of \$56.2 million were received during the year, up 3.8% on the prior year.

GROUP OUTLOOK

As we move into the new financial year, the Building Products division faces mixed market conditions across the country, with the timing and extent of any sustained decline in building materials demand difficult to predict.

Market fundamentals remain supportive for new housing construction, with employment levels healthy, low interest rates and high immigration levels projected to be sustained. External analysis indicates that a housing undersupply still exists in New South Wales and Victoria⁴.

However, tighter bank lending controls have reduced personal borrowing capacity and this is now causing delays and cancellations of dwelling construction.

As a result, we are currently experiencing patchy sales, despite our strong order book in the major East Coast markets. Weakness is evident in businesses exposed to the multi-residential market in Sydney. Elsewhere, demand is being supported by the continued resilience of the detached housing market, and strong activity in regional centres such as Newcastle and Wollongong in New South Wales and Geelong in Victoria.

There are reports of trade shortages in Victoria and South Australia, and in Tasmania housing approvals are at the strongest level for almost a decade.

On the other side of the country in Western Australia, the wet winter period has adversely impacted demand, in an already difficult market. Brick selling prices continue to fall in this state, however we expect margins to be supported by continued manufacturing cost savings, following restructuring initiatives and capital upgrade projects that have been completed.

Meanwhile, despite the positive development in relation to our future gas supply agreement with Santos, current energy costs and contracted price increases to take effect on 1 January 2019, will have a significant adverse impact on Building Products earnings. These increases are likely to exceed our ability to recover them, through price rises in the current market or other initiatives to reduce cost in the short term.

Turning to Property, development activity within the Trust remains strong. The completion of new facilities at Oakdale South and Rochedale will drive growth in rent and asset value over both the short and longer term.

As I mentioned, the sale of the Punchbowl property is due to complete in October. With a sale price of \$41 million, and total costs of approximately \$8 million, this transaction will deliver a profit of around \$33 million to Brickworks.

In 2019 we expect another solid earnings contribution from Property, but as always, the final outcome will depend on the timing of development activity and transactions, and extent of any revaluations.

We are confident that WHSP will continue to deliver a stable and growing stream of earnings and dividends over the long term.



Urbanstone Commercial – Engineered Stone and Natural Stone
National Gallery of Victoria

OUR PEOPLE

Finally, I'd like to thank our people. Their energy and dedication is the key to our success. All of our staff across the country are making the difference. From our sales teams who are willing to go the extra mile, get on the front foot and ensure that Brickworks is an easy Company for our customers to do business with. To our production staff who are constantly striving to improve operational efficiency and product quality.

I am very proud that at Brickworks we have been able to maintain a stable and highly experienced workforce, and I believe this gives us a competitive edge.

As you can see, we have achieved a lot in 2018. I would like to take this opportunity to thank the Board of Directors, the executive team, and all our staff for their support and commitment during the year. Without your ongoing efforts, we would not be the successful Company that we are today.

LINDSAY PARTRIDGE AM
Managing Director

FINANCIAL Overview

HIGHLIGHTS

- ▶ **Statutory NPAT** including significant items, down 5.8% to \$175.4 million
- ▶ **Underlying NPAT** before significant items up 13.9% to \$223.7 million
 - ▶ **Building Products EBIT** up 16.8% to \$76.0 million (EBITDA \$105.4 million)
 - ▶ **Property EBIT** up 3.7% to \$94.0 million
 - ▶ **Investments EBIT** up 19.8% to \$123.5 million
- ▶ **Gearing (net debt/equity)** of 14.7%, net debt \$303.8 million
- ▶ **Final dividend** of 36 cents fully franked, up 2 cents or 5.9%
- ▶ **Total full year dividend** of 54 cents fully franked, up 3 cents or 5.9%

EARNINGS

Brickworks posted a statutory **Net Profit After Tax** for the year ended 31 July 2018 of \$175.4 million, down 5.8% on the prior year. Record underlying NPAT of \$223.7 million was up 13.9% from \$196.4 million for the year ended 31 July 2017.

Statutory **Earnings Per Share** was \$1.17, down 6.0% on the prior year, and underlying EPS was \$1.50, up 13.7%.

Building Products EBIT was \$76.0 million, up 16.8% on the prior year. Austral Bricks earnings were significantly higher on the back of a strong performance in New South Wales and Victoria. Performance in Western Australia also improved following a range of restructuring initiatives. Bristle Roofing, Austral Precast and Auswest Timbers earnings also increased whilst Austral Masonry was approximately in line with the prior year.

Property EBIT was \$94.0 million for the 12 months to 31 July 2018, up 3.7% on the prior year. This result was driven by a significant increase in earnings from the Joint Venture Industrial Property Trust ('Property Trust') following continued strong development activity during the year.

Investments EBIT, including the contribution from Washington H. Soul Pattinson Limited ('WHSP'), was up 19.8% to \$123.5 million. This was due primarily to improved earnings from New Hope Coal and TPG Telecom. During the year, the value of Brickworks' stake in WHSP increased by \$427 million to \$2.231 billion.

Total **borrowing costs** were up 16.2% to \$14.5 million, including the mark-to-market valuation of swaps. Underlying **interest cover** was a conservative 18.0 times at 31 July 2018.

Statutory **income tax** was \$54.6 million for the year. The underlying income tax expense increased to \$41.6 million compared to \$37.4 million for the prior year, due to the higher earnings from the combined Building Products and Property Groups.

Significant Items	Gross \$m	Tax \$m	Net \$m
Restructuring and commissioning	(10.1)	3.0	(7.1)
Net legal and advisory cost (including acquisitions)	(3.0)	0.9	(2.1)
Significant items relating to WHSP	(22.3)	(16.9)	(39.2)
Total	(35.3)	(13.0)	(48.3)

Significant items reduced NPAT by \$48.3 million for the year, and included the following:

- ▶ \$7.1 million in after-tax costs relating to restructuring and commissioning within Building Products. This includes the cost associated with commissioning upgraded plants in Western Australia and Queensland (\$3.2 million) and restructuring activities across various operations (\$3.9 million);
- ▶ Business acquisition costs and other legal and advisory costs of \$2.1 million (net);
- ▶ A \$22.3 million cost attributable to Brickworks share of WHSP significant items. This includes a share of impairments booked by WHSP associates of \$28.6 million (primarily a \$19.8 million impact associated with New Hope Corporation's impairment of coal exploration and evaluation assets), \$13.0 million of tax on equity accounted associates and a \$5.4 million share of other significant items in associates and JV entities. Partially offsetting these losses were gains on derecognition of associates of \$21.6 million, and an \$8.0 million profit on investment portfolio sales; and
- ▶ A \$16.9 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 year, and adjusted for the movements in the franking account and the circular dividend impact.

BALANCE SHEET

Gearing (net debt to equity) was 14.7% at 31 July 2018, down from 14.9% at 31 July 2017. Total interest-bearing debt increased to \$325.0 million and net debt was up 3.6% to \$303.8 million at 31 July 2018.

During the second half, 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.

Net working capital, excluding land held for resale, was \$183.4 million at 31 July 2018, down \$13.3 million from the prior year, due primarily to a reduction in debtor days through improved cash collections.

Finished goods inventory was up by \$6.4 million, due largely to the impact of the additional stock associated with the UrbanStone acquisition and higher unit brick costs as a result of energy cost increases. Finished goods units were down across most operations, including a reduction of 5.3% within Austral Bricks. Finished goods inventory across the business represented 3.6 months sales at the end of the period.

Net tangible assets per share was \$12.42 at 31 July 2018, up from \$11.77 at 31 July 2017 and total shareholders' equity was up \$103.2 million to \$2.071 billion.

Return on equity of underlying earnings for the year was 10.8%. Over the longer term, Brickworks' diversified corporate structure has provided stability of earnings and enabled prudent investments that have steadily built net asset value.

CASH FLOW

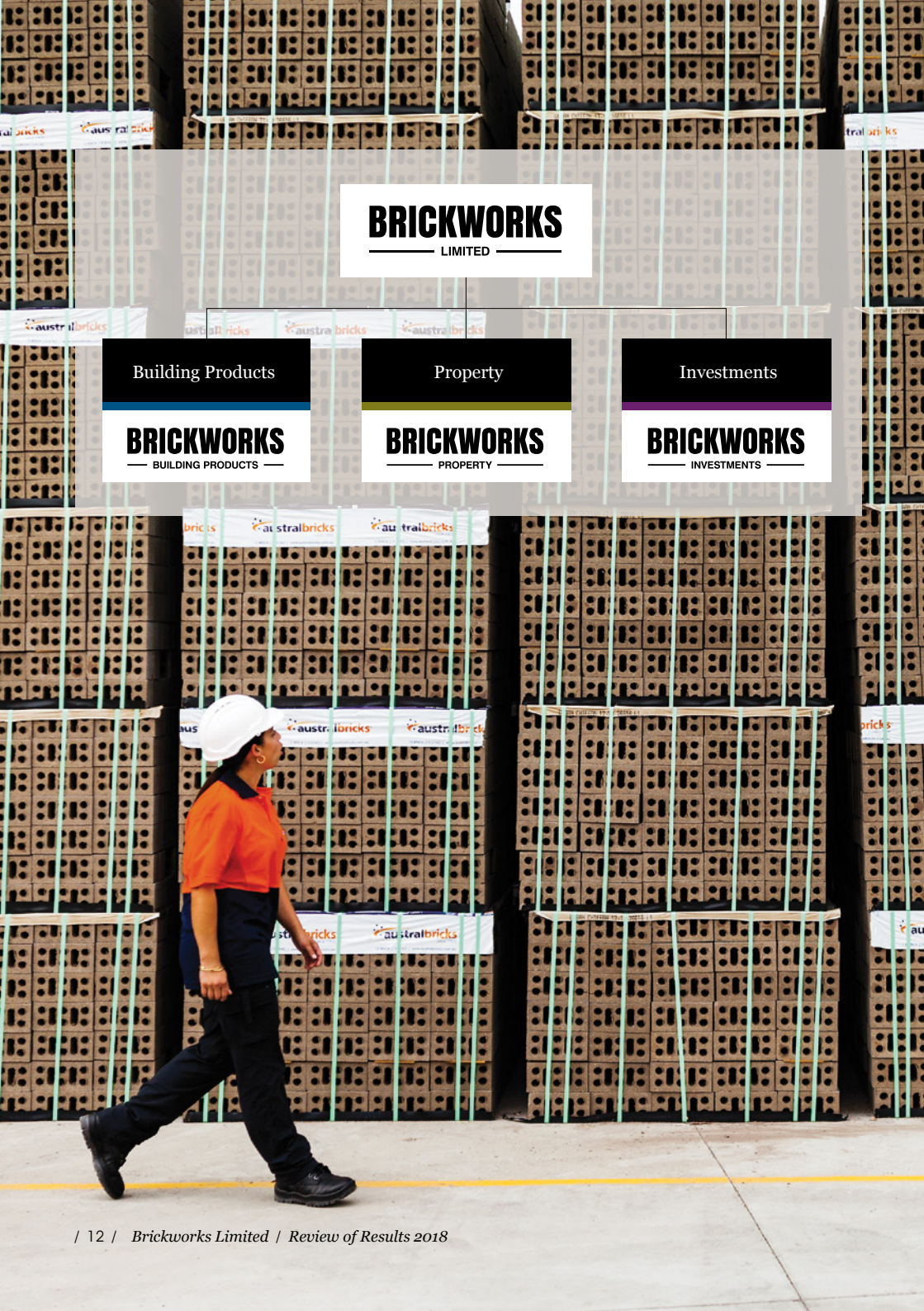
Total **cash flow from operating activities** was \$170.9 million, up from \$115.4 million in the prior year, due primarily to increased earnings from Building Products, distributions received from the Property Trust following the settlement of land at Oakdale South, and lower income tax payments.

Building Products **capital expenditure** decreased to \$43.3 million, from \$60.3 million in the prior year. Stay in business capital expenditure was \$24.3 million, marginally below depreciation. Spend on major upgrade and growth projects totalled \$19.0 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.

DIVIDENDS

Directors declared a fully franked final **dividend** of 36 cents per share for the year ended 31 July 2018, up 5.9% from 34 cents. Together with the interim dividend of 18 cents per share, this brings the total dividends paid for the year to 54 cents per share, up 3 cents or 5.9% on the prior year.





BRICKWORKS LIMITED

GROUP Structure

Brickworks has a diversified corporate structure that has delivered stability of earnings over the long term. There are three divisions within the Brickworks Group structure:

BUILDING PRODUCTS

The Building Products division is a leading Australian manufacturer and distributor of building products. Since 2002, the Building Products Group has grown from a two state brick manufacturer, in New South Wales and Queensland, to a diversified national building products business with significant sales and operations in all states.

In total the Building Products Group comprises 33 manufacturing sites and more than 27 display centres and design studios across the country. This is complemented by an extensive reseller network that includes over 100 additional displays.

The portfolio includes:

- ▶ **Austral Bricks:** Australia's largest clay brick manufacturer with significant market positions in every state
- ▶ **Austral Masonry:** Australia's second largest masonry manufacturer with operations in all major states
- ▶ **Bristle Roofing:** A "full service" roofing supplier with a strong presence in all major states, offering supply and install tiles (concrete or terracotta), metal roofing and fascia and guttering
- ▶ **Austral Precast:** A national supplier of precast walling and flooring products, with plants in Sydney, Brisbane and Perth
- ▶ **Auswest Timbers:** Operates sawmills and value adding facilities across the country, supplying roof tile battens, structural timber, pre finished flooring and various other timber products.

PROPERTY

The Property division was established to maximise the value of land that is surplus to the Building Products business. Operational land that becomes surplus to the business needs is transferred to the Property division where it is assessed for optimum land use. In some cases, land is rezoned to residential and sold. Alternatively, the land is rezoned industrial and transferred into the Property Trust and developed, creating a stable, growing annuity style income stream.

The Joint Venture Industrial Property Trust is a 50/50% partnership between Brickworks and Goodman Industrial Trust. Over the past decade it has grown significantly and now has a total asset value of over \$1.5 billion. After including debt, Brickworks 50% share of the Property Trust has an equity value of \$538 million.

In addition to the Property Trust, the Company holds around 3,750 hectares of operational land and 370 hectares of development land.

INVESTMENTS

Investments consists primarily of a 42.7% interest in Washington H. Soul Pattinson, an ASX listed Company with market capitalisation of \$5.225 billion as at 31 July 2018 (market value of Brickworks share \$2.231 billion). This investment provides a stable and diversified earnings stream and has provided Brickworks with superior returns and security to weather periods of weaker building products demand.

BUILDING PRODUCTS

SUMMARY OF HOUSING COMMENCEMENTS

Estimated Starts ⁵	Detached Houses			Other Residential			Total		
	Jun 17	Jun 18	Change	Jun 17	Jun 18	Change	Jun 17	Jun 18	Change
New South Wales ⁶	30,260	29,990	(0.9%)	48,440	43,470	(10.3%)	78,700	73,460	(6.7%)
Queensland	24,190	24,870	2.8%	19,730	14,540	(26.3%)	43,920	39,410	(10.3%)
Victoria	35,690	37,170	4.1%	28,490	33,080	16.1%	64,180	70,250	9.5%
Western Australia	14,460	13,850	(4.2%)	5,410	5,040	(6.8%)	19,870	18,890	(4.9%)
South Australia	7,640	7,700	0.8%	3,230	4,000	23.8%	10,870	11,700	7.6%
Tasmania	1,750	1,980	13.1%	420	600	42.9%	2,170	2,580	18.9%
Total Australia⁷	114,730	116,120	1.2%	106,000	101,000	(4.7%)	220,730	217,120	(1.6%)
New Zealand ⁸	27,540	28,940	5.1%	2,913	3,922	34.6%	30,453	32,860	7.9%

MARKET CONDITIONS

Total dwelling commencements for Australia were down 1.6% to 217,120 for the twelve months ended 30 June 2018. Despite the decline, this level of building activity remains elevated compared to historical averages.

The decline in activity was caused by a 4.7% 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. A small increase of 1.2% was recorded in the

twelve months to 30 June 2018, with further increases limited by trade availability, construction bottlenecks and materials supply constraints in some areas.

Detached housing commencements in **New South Wales** (including ACT) remain strong, albeit down slightly on the record high level of one year ago. However, following many years of strong growth, other residential construction activity appears to have passed the peak, with a decline of 10.3% recorded for the twelve months to 30 June 2018.

Queensland continues to experience steady growth in detached housing activity since the low point in 2011,

OVERVIEW OF FY2018 RESULTS

Year Ended July	2017 \$m	2018 \$m	Change %
Revenue	763.3	820.0	7.4%
EBITDA	92.9	105.4	13.4%
EBIT	65.0	76.0	16.8%
EBITDA margin	12.2%	12.8%	5.6%
EBIT margin	8.5%	9.3%	8.8%
Net Tangible Assets	711.6	733.3	3.0%
Return on Net Tangible Assets ⁹	12.6%	14.3%	13.9%
Full Time Equivalent Employees (#)	1,511	1,485	(1.7%)
Safety (TRIFR) ¹⁰	17.1	20.4	(19.3)
Safety (LTIFR) ¹¹	1.3	1.7	(30.8)

with almost 25,000 starts for the year. However other residential commencements recorded another sharp decline, having now fallen by over 40% from the peak level experienced in 2016.

In **Victoria** residential building remains extremely strong. Both detached housing and other residential activity increased during the year, pushing total starts in this state to a new record.

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.

The value of approvals in the **non-residential** sector in Australia increased by 3.6% to \$46.5 billion for the twelve months to 31 July 2018. Within the non-residential sector, Commercial building approvals decreased by 9.0% to \$16.7 billion for the period

and Industrial building approvals increased 20.0% to \$6.6 billion. The Educational sub-sector, an important driver for bricks and masonry demand, was up 5.9% to \$6.8 billion.

OVERVIEW OF FY2018 RESULTS

Revenue for the year ended 31 July 2018 was up 7.4% to a record \$820.0 million, compared to \$763.3 million for the prior year. Continued strong demand for building materials in the major East Coast markets of New South Wales and Victoria, and the impact of the acquired UrbanStone operations was partially offset by a further decline in demand from Western Australia.

EBIT was \$76.0 million, up 16.8% on the prior year, and **EBITDA** was \$105.4 million. The uplift in earnings was primarily due to another strong performance from Austral Bricks, including an improvement in Western Australia following a range of restructuring activities.

Improved earnings were achieved despite the impact of new gas and electricity contracts on the East Coast

⁵ Based on Housing Industry Association May 2018 Forecast.

⁶ Includes ACT, to align with Brickworks divisional regions.

⁷ Includes Northern Territory, not shown separately on table.

⁸ Building Consents data sourced from Statistics New Zealand – Building Consents.

⁹ Assumes all Brickworks net debt and interest charges are allocated to Building Products.

¹⁰ Total Reportable Injury Frequency Rate (TRIFR) measures the total number of reportable injuries per million hours worked.

¹¹ Lost Time Injury Frequency Rate (LTIFR) measures the number of lost time injuries per million hours worked.

that took effect from 1 January 2018, resulting in higher energy costs of around \$7 million compared to the prior year.

The Company's investment in marketing and branding was further expanded during the year, with direct marketing costs increasing compared to the prior year. 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 **employees** decreased by 26 during the year, taking the total number to 1,485 at 31 July 2018. The addition of 66 employees following the acquisition of UrbanStone was more than offset by a 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 5 Lost Time Injuries ('LTIs') during the year, up from 4 in the prior year. This translated into an increase in the Lost Time Injury Frequency Rate ('LTIFR') to 1.7, compared to 1.3 in the 2017 financial year. The Total Reportable Injury Frequency Rate ('TRIFR') increased to 20.4 from 17.1 in the prior financial year.

Whilst disappointing, the increase in workplace injuries in 2018 follows 4 straight years of decreasing injury rates, and has reinforced the Company's commitment to rolling out best practice safety standards across all operations.

AUSTRAL BRICKS

Austral Bricks delivered a 12.8% increase in earnings for the twelve months ended 31 July 2018, with sales revenue up 8.1% to \$447.3 million.

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.

The improved earnings were driven primarily by continued strong performance in New South Wales and a significant turn-around in Western Australia, despite the difficult market conditions.

Earnings were higher in Victoria, despite the impact of a six-week shut-down during January and February to complete necessary maintenance and upgrade works. This was the first plant shutdown at the Wollert "East" kiln since its commissioning a decade ago and this facility continues to operate ahead of original expectations.

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

Following the completion of upgrades in Queensland and Western Australia in recent years, the focus for capital investment has now turned to New South Wales, where there has been limited major capital expenditure for over twenty years. A review of the future operational footprint within the Horsley Park precinct is underway, where Austral Bricks currently has 3 plants in operation. Planning and capital works in this precinct will be phased over a number of years.

Also under consideration is the investment in 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 1920s.



AUSTRAL MASONRY

Austral Masonry earnings were in line with the prior year, on a 23.2% increase in sales revenue to \$109.7 million. Excluding UrbanStone, revenue was up 5.5% on a like-for-like basis.

Earnings and sales in New South Wales were significantly higher than the prior year, on the back of strong demand across all product categories from grey block to premium products such as retaining walls. In this market demand in the residential and commercial sectors remain robust, including a major project with approximately four kilometres of Keystone walling at Oakdale South.

Sales of UrbanStone products have been strong since the acquisition of the business in November 2017, underpinned by an order book comprising several large commercial projects in major capital cities across Australia. UrbanStone's range of premium paving products have now been rolled out into Brickworks' network of display centres and design studios across

the country, positioning the business to deliver further sales growth of these high margin products.

Earnings in Queensland were down, due to the slowdown in apartment construction in Brisbane and difficult conditions in Central Queensland.

BRISTILE ROOFING

Bristile Roofing earnings increased on the prior year, with sales revenue up 6.7% to \$136.4 million.

Earnings were higher in New South Wales and Victoria, driven by increased sales of both roof tiles and metal products. 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.

Sales of premium imported terracotta tiles from La Escandella in Spain continue to increase, and supplement the sales of locally produced concrete tiles.

Metal roofing and fascia and gutter sales now make up a significant portion of total Bristle Roofing revenue and these products delivered increased earnings compared to the prior year.

Bristle 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, Bristle Solar is able to offer home owners a full energy management system.

The Bristle Solar package is offered in conjunction with Bristle tiles and is expected to attract new customers and support increased roof tile sales volume.

AUSTRAL PRECAST

Austral Precast earnings were higher, despite a 9.1% decrease in revenue to \$73.2 million for the year. The decline in revenue was primarily due to the closure of the Victorian facility, a highly unionised operation that resulted in this business being uncompetitive. In addition, the slowdown in high rise multi-residential development in Brisbane significantly impacted sales in this market.

Demand in New South Wales is particularly strong, resulting in a significant increase in earnings in this state. Increased utilisation at the highly automated Wetherill Park facility resulted in improved manufacturing efficiencies and lower production costs. During the year, further investments in automation were completed at this plant with the successful commissioning of a new shuttering robot.

At the end of the financial year the order book was extremely strong, with over \$50 million of work in the pipeline across the country, predominantly in New South Wales and Queensland.

To meet demand and maintain plant efficiency, construction of a second production line to cater for specialised panels in New South Wales has commenced. This line will assist the business to meet the large backlog of work in this state.

AUSWEST TIMBERS

Auswest Timbers earnings were higher than the prior year, despite a 4.2% decrease in revenue to \$44.6 million.

In Western Australia, improved earnings were delivered following the commencement of restructuring activities in the prior year. During the year, the restructuring process continued, with the installation of a large log line at Greenbushes, currently being commissioned. This restructuring program allows the consolidation of operations to one site at Greenbushes, positioning this business for continued improvement in the years ahead.

Earnings also improved in Victoria, due primarily to operational improvements that delivered manufacturing cost savings. Despite ongoing challenges with log supply quality, adjustments to manufacturing processes, as well as the end customer mix allowed improved production efficiencies, particularly in the second half of the year. Further improvements rely on investment in processing equipment and investment planning is well advanced.

Operationally the Fyshwick roof tile batten mill continues to set new performance benchmarks. Auswest Timbers is currently seeking additional log supply volume beyond the existing term to ensure the mill can continue to meet the strong demand for structural pine across the country.



PROPERTY

Property delivered an EBIT before significant items of \$94.0 million for the year ended 31 July 2018, up 3.8% from \$90.6 million for the prior year.

OVERVIEW OF FY2018 RESULT

Year Ended July	2017 \$m	2018 \$m	Change %
Net Trust Income	18.3	22.0	20.2
Revaluation of properties	14.3	23.8	66.4
Development Profit	10.8	28.9	167.6
Sale of assets	1.0	25.9	>500
Property Trust	44.4	100.6	126.6
Land Sales	50.3	(3.0)	N/A
Property Admin and Other	(4.1)	(3.6)	(12.2)
Total	90.6	94.0	3.8

The improved result was due to higher earnings from the Property Trust, which generated an EBIT of \$100.6 million, up 126.6% from \$44.4 million in the prior period. Property Trust earnings were primarily driven by the sale of land at Oakdale South, (\$25.9 million contribution) and development profits from the completion of assets at Oakdale Central and Rochedale (\$28.9 million contribution).

Net property income distributed from the Trust was \$22.0 million, up 20.2% from \$18.3 million in financial year 2017. Revaluations on existing properties provided an additional \$23.8 million profit, up 66.4% from \$14.3 million in the prior year.

No land sales were completed in financial year 2018, however the preparation of the Punchbowl site for sale resulted in \$3.0 million in costs during the period. In May a call option for the sale of this site was granted, at a sale price of \$41 million, and this option has now been exercised. The settlement of this site is expected to occur in October 2018, and will include a lease back to Austral Bricks for 10 years, with an additional 10-year option.

Property administration expenses totalled \$3.6 million, down 12.2% from \$4.1 million in the prior year. These expenses include holding costs such as rates and taxes on properties awaiting development. The decrease resulted from the sale of Oakdale West into the Property Trust in financial year 2017.

PROPERTY TRUST ASSET VALUE

Year Ended July	2017 \$m	2018 \$m	Change %
Leased properties	878	1,168	33
Land to be developed	523	360	(31)
Total Property Trust assets	1,401	1,527	9
Borrowings on leased assets	(408)	(451)	11
Borrowings on developments	(34)	–	–
Net Property Trust assets	960	1,076	12
Brickworks 50% share	480	538	12
Rental return on leased assets ¹²	7.8%	6.1%	(21)
Reval return on leased assets ¹³	6.1%	6.6%	9
Total return on leased assets	13.9%	12.8%	(8)
Gearing on leased assets ¹⁴	46%	39%	(17)

PROPERTY TRUST – LEASED PROPERTIES

Estate	Asset Value \$m	Gross Lettable Area m ²	Gross Rental \$m/year	WALE ¹⁵ years	Capitalisation Rate %
M7 Hub	133	64,125	8.3	3.4	6.0
Interlink	384	192,207	24.3	4.6	6.0
Oakdale	481	245,205	29.0	5.8	5.7
Rochedale	169	95,636	10.2	12.8	5.9
Total	1,168	597,173	71.8	6.1	5.9

PROPERTY TRUST – DEVELOPMENT PIPELINE

	Asset Value \$m	Gross Lettable Area m ²	Gross Rental \$m/year	Capitalisation Rate %
Current Leased Assets	1,168	597,173	71.8	5.9
New – Oakdale South	148	79,745	8.8	6.0
Future Leased Assets	1,315	676,918	80.6	6.0

12 Based on Net Trust Income, divided by Brickworks share of leased properties less associated borrowings.

13 As above, but using revaluation profit.

14 Borrowings on leased assets / total leased assets.

15 Weighted average lease expiry.

PROPERTY TRUST ASSET VALUE

The total value of assets held within the Property Trust at 31 July 2018 was \$1.527 billion. This includes a 33% increase in the value of leased assets, to \$1.168 billion, due primarily to the completion of the Oakdale Central Estate in the second half. The Property Trust also holds a further \$360 million in land to be developed.

Borrowings of \$451 million are held within the Property Trust, giving a total net asset value of \$1.076 billion. Brickworks' 50% share of net asset value was \$538 million, up \$58 million from \$480 million at 31 July 2017.

The settlement on the sale of land at Oakdale South provided the Property Trust with \$100 million in cash receipts in June. These proceeds were re-invested into the Trust to repay borrowings and fund additional developments at Oakdale South.

This has contributed to a significant reduction in gearing within the Property Trust, with gearing on leased assets decreasing to 39% at 31 July 2018, from 46% twelve months earlier.

PROPERTY TRUST – LEASED PROPERTIES

The entire Property Trust portfolio consists of "A grade" facilities, each less than eight years old, with long lease terms and stable tenants. The annualised gross rent exceeds \$70 million, and the average capitalisation rate is 5.9%. At the end of July 2018 there was one vacancy, a 10,400m² facility at the Rochedale Estate, and this facility has since been leased.

PROPERTY TRUST – DEVELOPMENT PIPELINE

A significant milestone for the Property Trust was achieved in financial year 2018, with the completion of all assets at Oakdale Central. Assets completed over the year at this Estate included a 32,000m² facility for Yusen Logistics and Petbarn, a 38,000m² facility for Reckitt Benckiser and a 14,000m² small unit development.

Following the completion of the Oakdale Central Estate, development activity is now focused on Oakdale South, which has 24 hectares of land available for development. Assets under construction include a 20,000m² facility for Iron Mountain and a 15,000m² warehouse for Briggs and Stratton, both due for completion in October 2018. In addition, a 33,000m² facility for DHL will commence construction in the coming months and be completed during financial year 2019.

Once completed, these new developments will contribute in excess of \$8.8 million¹⁶ in gross rental income to the Property Trust, taking the forecast gross rental income to over \$80 million at the end of financial year 2019.

A conditional contract for the sale of Lot 6, a 52,000m² developable lot at the rear of Oakdale South has also been signed during the period. The sale is conditional on development approval for a 24-hour logistics facility on the land, which is expected to be secured in late financial year 2019. No further land sales are expected to occur at Oakdale South.

Looking further ahead, the State Significant Development Application for the 100-hectare (developable area) Oakdale West property has been put on public exhibition. Approval is expected to be achieved in early 2019.

BRICKWORKS OPERATIONAL AND DEVELOPMENT LAND

Operational land is utilised in the day to day activities of the Building Products Group. The total value of operational land remained stable during the period at around \$357 million.

The largest site held for development is at Craigieburn in Victoria. Brickworks is currently collaborating with other local landowners to produce development concepts that may accelerate rezoning of this land to residential.

16 This increase in gross Trust rent equates to around \$2.5–3.0 million in net trust income to Brickworks, based on current gearing.

INVESTMENTS

The EBIT from total investments was up 19.8% to \$123.5 million in the year ended 31 July 2018.

WASHINGTON H. SOUL PATTINSON LIMITED ('WHSP')

ASX Code: SOL

Brickworks' investment in WHSP returned an underlying contribution of \$122.4 million for the year ended 31 July 2018, up 19.0% from \$102.9 million in the prior year. This was due primarily to increased earnings from New Hope Corporation.

The market value of Brickworks 42.72% shareholding in WHSP was \$2.231 billion at 31 July 2018, up \$427 million from \$1.804 billion at 31 July 2017. This investment continues to provide diversity and stability to earnings, with cash dividends totalling \$56.2 million received during the year, up 3.8% on the prior year.

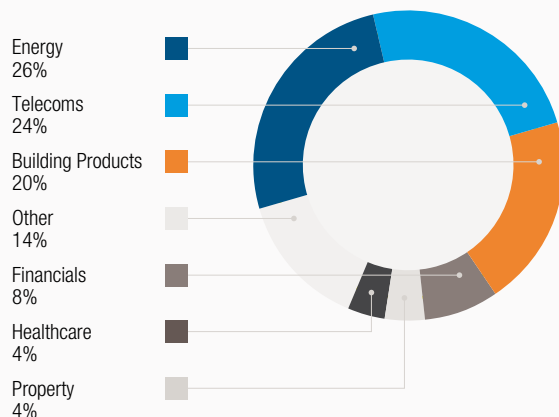
WHSP has delivered outstanding returns over the long term, with fifteen year returns of 13.0% per annum to 31 July 2018 being 3.6% ahead of the All Ordinaries Accumulation Index.

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

This provides WHSP with a diversified end market exposure, as shown in the chart on the right.

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 Property divisions.

Investment Market Exposure



Review of RESULTS

CONSOLIDATED INCOME STATEMENT

	2018 \$000	2017 \$000
Revenue	821,084	841,816
Cost of sales	(567,023)	(559,099)
Gross profit	254,061	282,717
Other income	2,074	1,758
Distribution expenses	(72,164)	(65,632)
Administration expenses	(31,507)	(28,948)
Selling expenses	(85,413)	(77,870)
Impairment of non-current assets	(124)	(3,046)
Other expenses	(23,272)	(25,631)
Share of net profits of associates and joint ventures	200,798	173,235
Profit before finance cost and income tax	244,453	256,583
Finance costs	(14,456)	(12,436)
Profit before income tax	229,997	244,147
Income tax expense	(54,555)	(57,937)
Profit after tax	175,442	186,210
Profit after tax attributable to:		
Shareholders of Brickworks Limited	175,442	186,210
	Cents	Cents
Earnings per share attributable to the shareholders of Brickworks Limited		
Basic (cents per share)	117.5	124.9
Diluted (cents per share)	117.5	124.9

CONSOLIDATED BALANCE SHEET

	2018 \$000	2017 \$000
Cash and cash equivalents	21,167	19,641
Receivables	122,216	133,225
Inventories	207,104	195,720
Land held for resale	7,383	—
Derivative financial assets	376	—
Prepayments	10,227	8,393
Total current assets	368,473	356,979
Inventories	7,356	7,300
Available-for-sale financial assets	1,181	—
Investments accounted for using the equity method	1,771,504	1,644,029
Property, plant and equipment	510,493	498,755
Intangible assets	216,130	212,840
Total non-current assets	2,506,664	2,362,924
TOTAL ASSETS	2,875,137	2,719,903
Payables	107,909	110,102
Derivative financial liabilities	501	513
Current income tax liability	19,577	6,184
Provisions	49,668	43,416
Total current liabilities	177,655	160,215
Borrowings	324,105	311,977
Derivative financial liabilities	1,922	3,549
Provisions	10,494	10,436
Deferred income tax liability	289,883	265,886
Total non-current liability	626,404	591,848
TOTAL LIABILITIES	804,059	752,063
NET ASSETS	2,071,078	1,967,840
Issued capital	345,873	340,814
Reserves	309,094	309,782
Retained profits	1,416,111	1,317,244
TOTAL EQUITY	2,071,078	1,967,840

CONSOLIDATED STATEMENT OF CASH FLOWS

	2018 \$000	2017 \$000
Cash flows from operating activities		
Receipts from customers	909,162	811,393
Payments to suppliers and employees	(829,130)	(757,772)
Proceeds from land held for resale	—	20,994
Interest received	303	224
Interest and other finance costs paid	(14,046)	(15,222)
Dividends and distributions received	116,152	73,246
Income tax paid	(11,493)	(17,441)
Net cash from operating activities	170,948	115,422
Cash flows from investing activities		
Purchases of property, plant and equipment	(43,467)	(61,358)
Proceeds from sale of property, plant and equipment	1,260	1,555
Purchase of investments in joint ventures	(81,465)	(9,450)
Proceeds from sale or return of investments	33,250	5,750
Purchase of controlled entities, net of cash acquired	(13,308)	(3,195)
Net cash used in investing activities	(103,730)	(66,698)
Cash flows from financing activities		
Proceeds from borrowings	280,000	523,000
Repayments of borrowings	(268,000)	(510,000)
Dividends paid	(77,692)	(72,866)
Net cash used in financing activities	(65,692)	(59,866)
Net increase/(decrease) in cash held	1,526	(11,142)
Cash at the beginning of the financial year	19,641	30,783
Cash at the end of the financial year	21,167	19,641

BRICKWORKS LIMITED

CORPORATE information

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EY

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IMPORTANT DATES

2018 annual result released	20 September 2018
Record date for final ordinary dividend	8 November 2018
Annual General Meeting	27 November 2018
Payment date for final ordinary dividend	28 November 2018
2019 half-year end	31 January 2019
2019 half-year result announced	21 March 2019
Record date for interim ordinary dividend	9 April 2019
Payment date for interim ordinary dividend	30 April 2019
2019 financial year end	31 July 2019
2019 annual result released	19 September 2019

The above dates are indicative only and are subject to change.

BRICKWORKS
— LIMITED —