

25 September 2014

Australian Securities Exchange

Attention: **ASX Market Announcements**

BY ELECTRONIC LODGEMENT

Dear Sir/Madam,

Please find attached the Brickworks Ltd Review of Results for the year ended 31 July 2014, for immediate release to the market.

Yours faithfully,

BRICKWORKS LIMITED



IAIN THOMPSON

COMPANY SECRETARY

Proudly supports





REVIEW OF RESULTS
YEAR ENDED JULY 2014

Released: 25th September 2014

BRICKWORKS LIMITED
REVIEW OF RESULTS JULY 2014

**RECORD BUILDING PRODUCTS SALES AND STRONG PROPERTY
RESULT DELIVERS EARNINGS GROWTH**

\$ MILLIONS	July 14 12 mths	July 13 12 mths	Variance %
REVENUE			
Building Products	636.9	568.7	12.0
Land and Development	33.1	37.4	(11.5)
Other	0.3	0.5	(38.9)
Total	670.3	606.5	10.5
EBIT			
Building Products	45.1	32.8	37.4
Land and Development	62.4	49.6	25.8
Associates & Investments	44.6	60.0	(25.6)
Other & H.O.	(8.9)	(7.4)	21.1
Total EBIT (before significant items)	143.2	135.0	6.0
Total EBITDA (before significant items)	168.1	161.2	4.3
Interest cost	(19.5)	(20.3)	(4.1)
Mark to market valuation of swaps	1.4	1.5	(7.1)
Tax expense	(23.8)	(16.2)	47.3
Normalised NPAT	101.3	100.0	1.2
Significant items	1.5	(14.9)	N/A
NPAT (including significant items)	102.8	85.2	20.7
Per share Analysis			
Basic earnings per share (cents)	69.4	57.6	20.5
Interim ordinary dividend (cents)	14.0	13.5	3.7
Final ordinary dividend (cents)	28.0	27.0	3.7
Total full year dividend (cents)	42.0	40.5	3.7
Share price (31 Jul 14)	\$14.30	\$12.24	16.8
Net tangible assets (NTA)	\$10.32	\$9.82	5.1
Share price / NTA (times)	1.39	1.25	10.9

Total Shareholder Return to 31 Jul 2014 (Index return¹)			
1 year TSR %	20.3 (16.6)	10 year TSR % p.a.	6.7 (9.2)
5 year TSR % p.a.	5.5 (10.3)	15 year TSR % p.a.	12.5 (8.7)

¹ All Ordinaries Accumulation Index

RECORD BUILDING PRODUCTS SALES AND STRONG PROPERTY RESULT DELIVERS EARNINGS GROWTH

Highlights

- **Headline NPAT including significant items, up 20.7% to \$102.8 million**
- **Brickworks Normal NPAT before significant items up 1.2% to \$101.3 million**
 - **Building Products EBIT up 37.4% to \$45.1 million**
 - **Land and Development EBIT up 25.8% to \$62.4 million**
 - **Investments EBIT down 25.6% to \$44.6 million**
- **Net debt/capital employed of 14.5%, net debt \$304.8 million**
- **Final dividend of 28.0 cents fully franked**

Overview²

Brickworks' (ASX: BKW) posted a **headline** net profit after tax ('NPAT') for the year ended 31 July 2014 of \$102.8 million, up 20.7% on the prior year. Brickworks **normalised** NPAT of \$101.3 million was up 1.2% from \$100.0 million for the year ended 31 July 2013.

On record sales revenue of \$636.9 million, **Building Products** earnings before interest, tax and significant items ('EBIT') was \$45.1 million, up 37.4% on the prior year. Improved earnings were achieved on the back of strong growth in sales volume in the second half, increased pricing in some divisions, a range of operational efficiency measures and implementation of new business initiatives.

Land and Development EBIT was up 25.8% to \$62.4 million, driven primarily by the sale of Rochedale North, the completion of two major Property Trust developments and a compression in capitalisation rates in the second half.

Investment EBIT, primarily from Washington H Soul Pattinson ('WHSP') was down 25.6% to \$44.6 million.

Brickworks' continues to outperform the All Ordinaries Accumulation Index in terms of Total Shareholder Return ('TSR') over most time horizons. TSR for the year to 31 July 2014 was 20.3%, compared to the All Ordinaries Accumulation Index of 16.6%. Over 15 years, Brickworks has delivered returns of 12.5% p.a., compared to index returns of 8.7% p.a.

Basic earnings per share ('EPS') were 69.4 cents, up from 57.6 cents per share for the prior year.

² Unless otherwise stated all earnings measures exclude significant items

Directors have increased the final **dividend** by 1.0 cent per share to 28.0 cents fully franked. This follows an increase in the interim dividend by 0.5 cents per share and takes the full year dividend to 42.0 cents fully franked.

The record date for the final ordinary dividend will be 6 November 2014, with payment being made on 27 November 2014.

Financial Analysis

Gearing (debt to equity) was 18.1% at 31 July 2014, down from 19.7% at 31 July 2013. Total interest bearing debt ('TIBD') was \$326.0 million and Net Debt was \$304.8 million at 31 July 2014, down from \$319.9 million at the prior year end. Net debt to capital employed decreased to 14.5% from 15.7% the previous year.

Interest costs were down 4.1% to \$19.5 million for the year. **Total borrowing costs** were \$18.1 million, including the gain in mark to market valuation of interest rate swaps of \$1.4 million. Interest cover increased to 7.3 times at 31 July 2014, up from 6.6 times at 31 July 2013.

Working capital, excluding assets held for resale and short term debt, was \$172.7 million at 31 July 2014, a decrease of \$1.0 million compared to 31 July 2013. **Finished goods inventory** decreased by \$10.6 million to \$128.5 million during the year, with significant reductions in Austral Bricks and Austral Masonry. Stock decreases accelerated in the second half as sales volumes increased and production levels were held relatively constant. Offsetting the reduction in inventory was an increase in trade debtors, reflecting the higher levels of trading activity. Average debtor days outstanding was 43.7 at 31 July 2014, in line with the prior year, but slightly above the Group target of 40 days.

Total net **cash flow** from operating activities was \$100.5 million, more than double the previous year. This primarily reflects the rebalancing of production and sales, with the prior year being adversely affected by an increase in finished goods inventory. In addition, financial year 2014 benefitted from an increase in dividends and distributions received of \$10.0 million.

Building Products **capital expenditure** was \$33.2 million in the year ended 31 July 2014, up considerably from the restrained level of the prior year³. Stay in business capital expenditure was \$17.7 million, representing 71.1% of depreciation. Growth capital expenditure was \$15.5 million, including spend on alternative fuels projects, installation costs for the Wetherill Park batching plant and plant upgrades at Rochedale in Queensland and Bellevue in Western Australia.

There were no **acquisitions** during the year.

The normalised **income tax** expense increased to \$23.8 million compared to \$16.2 million for the prior year, due to the increased earnings from the combined Building Products and Land and Development Groups.

Net tangible assets ('NTA') per share increased 5.1% to \$10.32 and Total Shareholders' Equity increased \$76.6 million to \$1.796 billion.

³ Excludes \$4.8 million in plant rebuild costs covered by insurance, primarily related to Rochedale in Queensland, due to a fire in the grinding plant

Return on equity for the twelve months to 31 July 2014 was 5.7%, up from 5.0% in the prior year. Over the longer term, Brickworks diversified corporate structure has provided stability of earnings and enabled prudent investments that have steadily built net asset value and underpinned superior total shareholder returns.

Significant items increased NPAT by \$1.5 million for the year. The benefits associated with WHSP significant items were partially offset by \$2.8 million in costs associated with the restructuring proposal by Perpetual / Carnegie, a write down of the Port Kembla property of \$2.6 million and some other minor restructuring items in the Building Products Group.

Significant Items (\$m)	Gross	Tax	Net
Costs relating to Perpetual / Carnegie proposal	(2.8)	0.9	(2.0)
Impairment of property, plant and equipment	(2.6)	0.8	(1.8)
Other Building Products significant items	(1.0)	0.3	(0.7)
Significant items relating to WHSP	5.0	1.0	5.9
TOTAL	(1.4)	2.9	1.5

Brickworks' Building Products Group

Summary of FY2014 Housing Commencements

Estimated Starts ⁴	Detached Houses			Other Res			Total		
	Jun 14	Jun 13	Change	Jun 14	Jun 13	Change	Jun 14	Jun 13	Change
New South Wales ⁵	22,990	19,912	15.5%	30,586	24,738	23.6%	53,576	44,650	20.0%
Queensland	19,431	18,139	7.1%	16,011	11,278	42.0%	35,442	29,417	20.5%
Victoria	28,957	27,971	3.5%	21,203	22,923	-7.5%	50,160	50,894	-1.4%
Western Australia	22,440	18,544	21.0%	6,313	5,569	13.4%	28,753	24,113	19.2%
South Australia	7,813	6,405	22.0%	2,781	2,444	13.8%	10,594	8,849	19.7%
Tasmania	1,589	1,467	8.3%	246	373	-34.0%	1,835	1,840	-0.3%
Total Australia	104,056	93,256	11.6%	78,219	68,831	13.6%	182,275	162,087	12.5%
New Zealand ⁶	20,441	16,974	20.4%	2,829	1,809	56.4%	23,270	18,783	23.9%

Total dwelling commencements for Australia were up 12.5% to 182,275 for the twelve months ended 30 June 2014. This level of residential building activity is the highest in Australia for 20 years. Detached housing commencements increased 11.6% on the prior year, emerging from the cyclical low levels of recent years. The recovery in detached housing was broad-based, with all major states experiencing improved conditions. Despite the strong growth in 2014, detached housing commencements remain below the 25 year average.

Strong momentum in other residential activity continued, with commencements up 13.6% to a new record high of 78,219 for the twelve months to 30 June 2014. Since the cyclical low point five years ago, other residential commencements in Australia have almost doubled. During the same period, detached house commencements have increased by only 12%. As a result, other residential developments now represent 42.9% of all residential commencements in Australia, up from 30.0% five years ago. The shift to other residential developments is consistent across all states, but most pronounced in New South Wales, Victoria and Queensland.

Conditions in **New South Wales** (including ACT) continue to improve, with total residential commencements up 20.0% on the prior year. Growth in this state continues to be fuelled primarily by other residential activity, up a further 23.6% to 30,586. Detached housing commencements were up 15.5%, with the growth in this market being particularly robust in the second half of the financial year.

Queensland experienced a strong increase in overall activity, with commencements up 20.5% to 35,442. Detached housing activity finally showed some signs of life, with commencements up 7.1% from the cyclical low levels of the prior year. Other residential activity sprang to life during financial year 2014, up a very strong 42.0% to 16,011.

Victoria was the only major state to experience a decline in total commencements for the year, driven by a reduction in other residential commencements of 7.5%. Detached housing commencements increased by a modest 3.5%, following three years of declines, and remains at historically low levels.

⁴ Original data sourced from ABS Cat. 8752.0 Number of Dwelling Unit Commencements by Sector, States & Territories (Sep 13, Dec 13 and Mar 14 quarters). June 14 quarter estimate from BIS Shrapnel.

⁵ Includes ACT, to align with Brickworks divisional regions

⁶ Building Consents data sourced from Statistics New Zealand – Building Consents.

Residential building activity in **Western Australia** has rebounded sharply over the past two years and reached a new record high of 28,753 in financial year 2014. Strong growth was recorded in detached houses, up 21.0% and other residential dwellings, up 13.4%.

The resurgence in **New Zealand** continued, with building consents for the year ended 30 June 2014 increasing by 23.9% compared to the prior year.

The value of approvals in the **non residential** sector in Australia decreased by 0.4% to \$34.682 billion for the twelve months to 31 July 2014, compared to the prior year. Within the non residential sector, **Commercial** building approvals increased by 1.4% to \$13.931 billion for the period and **Industrial** building approvals decreased 12.5% to \$4.846 billion. The **Educational** sub-sector was up 10.9% to \$4.446 billion, reversing the declines in the prior year.

Building Products' Results in Detail

Year Ended July		2014	2013	Change	Change %
Revenue	\$mill	636.9	568.7	68.2	12.0
EBITDA	\$mill	70.0	58.5	11.5	19.8
EBIT	\$mill	45.1	32.8	12.3	37.4
Capital Expenditure ⁷	\$mill	33.2	17.7	15.5	87.6
EBITDA margin	%	11.0	10.3	0.7	6.9
EBIT margin	%	7.1	5.8	1.3	22.7
Return on Capital Employed	%	5.5	4.1	1.5	35.5
Return on Net Tangible Assets	%	8.3	6.2	2.1	34.4
FTE Employees ⁸		1,478	1,483	(5.0)	(0.3)
Safety (TRIFR) ⁹		161.7	153.2	8.5	5.5
Safety (LTIFR) ¹⁰		3.3	3.4	(0.1)	(3.8)

Revenue for the year ended 31 July 2014 was up 12.0% to a record \$636.9 million, compared to \$568.7 million for the prior year. Pleasingly, this level of growth outpaced the increase in building activity¹¹ during the year.

EBIT was \$45.1 million, up 37.4% on the prior year, and **EBITDA** was \$70.0 million. Improved earnings were achieved on the back of strong growth in sales volume in the second half, increased pricing in some divisions, a range of operational efficiency measures and implementation of new business initiatives.

Despite the improved earnings in the twelve months to 31 July 2014, Building Products' Return on Capital Employed ('**ROCE**') of 5.5% remains below internal targets. At the end of the period the Building Products Group held \$269.0 million in goodwill and other intangible assets. Excluding this, the Return on Net Tangible Assets ('**RONTA**') was 8.3%, up from 6.2% in the prior year.

The second half of financial year 2014 finally saw a broad-based recovery in building materials demand, with sales in all divisions exceeding the previous corresponding period. The long-awaited recovery in detached housing was particularly noticeable with significant sales momentum being achieved in Austral Bricks and a return to sales growth for Bristile Roofing in the second half. The impact of improved volumes delivered a positive EBIT impact of \$9.7 million compared to the prior year. Of this \$7.3 million was attributable to the strong growth in the second half.

Total cost increases totalled \$24.5 million for the year, including input cost and inflationary increases of an estimated \$20.7 million. In addition, production costs were adversely impacted by one-off plant impacts of \$3.8 million, primarily associated with capital works at Bellevue in Western Australia and Rochedale in Queensland, and issues with log input quality at Auswest operations in Western Australia.

⁷ Excludes plant rebuild costs covered by insurance

⁸ Includes casual employees

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

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

¹¹ Weighted average level of building activity across residential and non residential sectors

Offsetting these increases, a number of cost reduction initiatives across the Group delivered an estimated \$6.3 million in savings compared to the prior year. These benefits arose from prior year site consolidation activities in Austral Masonry and Austral Precast and a range of other operational improvement and cost reduction projects, including the use of alternative fuels to reduce the impact of significantly higher gas prices.

These cost reduction projects follow a number of years of difficult restructuring, such as brick plant closures at Cardup in Western Australia and Riverview in Queensland. In addition, Brickworks has maintained a disciplined capital expenditure program, to establish and secure the lowest cost manufacturer position in most markets in which it operates.

Pricing outcomes were patchy across the Group, with a weighted average increase of 2.6% achieved¹², contributing an EBIT uplift of \$15.1 million compared to the prior year. The combined impact of price increases and cost reduction initiatives broadly offset input cost increases over the year.

Earnings in financial year 2014 also benefitted from a number of other business growth initiatives that delivered a total EBIT uplift of \$5.6 million compared to the prior year. These included resource recovery projects in conjunction with external partners (raw materials and alternative fuels), product “tolling” arrangements in both Austral Bricks and Austral Masonry, the identification of cost effective import opportunities and strong growth in export demand.

The growth in exports is particularly encouraging, with renewed interest from Japan and China and continued growth in demand from New Zealand. Going forward export growth is likely to be assisted by the lower Australian dollar and the removal of the embedded carbon tax cost.

Staff numbers decreased by 5 over the year to 1,478 full time equivalent (‘FTE’) **employees**. Despite the improved market conditions, Brickworks continues to maintain a pro-active approach to workforce sizing to ensure maximum efficiency across all functions of the business. Late in the year a significant restructure was undertaken to centralise workplace health and safety, marketing, research and development and operational support functions. Overall cost savings from the restructure are expected to be around \$2 to 3 million in financial year 2015, as a result of a reduced headcount and the improved allocation of resources and activities across the Group.

Brickworks has a strong track record of investing in people across all levels of the organisation. During the year 14 new employees joined the company as part of the graduate training program, taking the total number of participants in this program to 97 over the past decade. Over the past three years, 322 operational staff have undertaken Certificate III or Certificate IV education programs in competitive manufacturing. In addition, 7 senior executives have now completed the Executive Program at Stanford University. Together with Brickworks Alignment and Retention Share Scheme, these programs have proven effective in reducing the level of staff turnover and aligning employees with the vision and goals of the company.

There were 9 Lost Time **Injuries** (‘LTIs’) during the year, in line with the previous year. This translated into a slight reduction in the Lost Time Injury Frequency Rate (‘LTIFR’) to 3.3. The Total Reportable Injury Frequency Rate (‘TRIFR’) increased to 161.7 from 153.2 in the prior year.

The Building Products Group continues to develop fashionable and market leading products to support its strategy of developing the leading style brand in the building products market, and therefore attract premium pricing and higher margins. During the year the company invested

¹² Excluding product “tolling” arrangements and export volume

heavily in a high fashion branding campaign in conjunction with designer Camilla Franks and continued the roll-out of CBD design studios across all major capital cities.

In practice, the effectiveness of this strategy is demonstrated through successful collaboration with architects to deliver iconic projects such as the Frank Gehry designed Dr Chau Chuk School of Business at the University of Technology Sydney, the Australian Embassy in Bangkok and the Barangaroo Project in Sydney. Brickworks' products also featured in four out of six winning projects at the recent Horbury Hunt awards that recognise excellence in the use of bricks, masonry and roofing products in architectural design.

Divisional Analysis

Austral Bricks delivered a 17.8% increase in earnings for the twelve months ended 31 July 2014. Sales revenue was up 17.4% to \$333.6 million, driven primarily by an increase in volume. Total sales volume was up by around 100 million bricks, taking total sales well above 600 million units for the year.

Price increases were patchy across the states. Excluding the impact of tolling and export volumes, solid increases were achieved in New South Wales, Queensland and South Australia. There was a reduction in average prices in Western Australia and relatively flat prices in Victoria.

Finished goods inventory was down by 16.6% during the year, with production volume held relatively constant despite the significant increase in sales volume.

New South Wales recorded a solid increase in earnings on the back of improved sales margins and a range of business improvement initiatives. Excluding the impact of product "tolling" arrangements, sales volume was also higher as a result of a very strong second half to the year.

Production costs remained steady compared to the prior year, due in part to an increase in the proportion of production from the lowest cost manufacturing plant. A small increase in throughput also contributed to improved efficiencies.

This business has also benefited from a sustained focus on developing "up-market", fashionable face bricks, with these products increasing penetration into the project home market and major commercial projects.

Queensland delivered a significantly improved result, albeit from a low base, despite a minor decrease in local sales volume. The improvement has been driven by strong selling price increases and reduced overhead costs. Manufacturing costs were lower, supported by an increase in demand from New Zealand Brick Distributors that resulted in a slight increase in production volume.

Following the sale of "Rochedale North" in the first half, a major project to compress the manufacturing footprint and improve efficiency is nearing completion. A staged upgrade of the plant will commence in December to reduce the cost of manufacture and ensure the viability of this business over the long term.

Earnings from **Victoria** were up on the prior year on the back of very strong sales growth, despite the flat market conditions. Austral Bricks market share has now returned to more historical levels, with the product range revamped successfully following the transition to the new Wollert factory. Production volume was held steady, despite the increase in sales volume, resulting in a significant reduction in stock levels during the year.

Earnings in **Western Australia** were down, despite an increase in volumes in line with the growth in residential building activity. The decrease in earnings was attributable to two key factors: a decrease in average pricing and shutdowns in two major production plants.

Market conditions in Western Australia remain difficult. In the face of uncommercial competition price increases were difficult to achieve. As a result average pricing was lower than the prior year.

Brickworks continue to make the necessary investments to ensure all plants are efficient and reliable. During 2014 this included a 4 month shutdown of the Bellevue plant to undertake a major refit. In addition the Malaga plant underwent a kiln roof repair in April. A refit of the Malaga plant will commence in financial year 2015 to reduce costs at this facility, including upgrades to the kiln, dryer and setter.

Earnings in **South Australia** were up significantly on the prior period, as a result of an increase in selling price and strong growth in export volumes. Manufacturing cost was held steady, despite a decrease in production volume.

Tasmania delivered increased earnings, due primarily to a strong increase in local sales volume. Margins were held relatively constant, with average prices increasing despite the impact of a significantly higher proportion of volume builder sales compared to the prior year.

New Zealand Brick Distributors delivered a strong uplift in earnings, with volumes benefiting from the continued momentum in residential activity in New Zealand during the year, including the Christchurch rebuild.

Austral Masonry earnings more than doubled over the prior year, supported by record sales revenue, up 32.4% to \$82.6 million. Sales volume was up 27.9% to more than 400,000 tonnes, due to a range of factors. These included the impact of prior period acquisitions, an increase in sales of premium block products into the residential segment, greater sales of engineered retaining walls and industrial paving products, and product “tolling” arrangements in place in Cairns.

In addition, a number of internal restructuring initiatives were implemented. These included significant overhead reductions across many operations, the closure of the inefficient Dandenong plant in Victoria and further productivity improvements at Prospect in New South Wales, following the consolidation of operations to that site in the prior year. Strong average selling price increases were achieved, up 8.2% excluding the impact of product “tolling”.

Bristle Roofing earnings increased 12.9%, despite a reduction in sales revenue, down 4.3% to \$100.4 million. This result was achieved on the back of cost reduction initiatives that resulted in improved margins, despite only modest price increases. Cost reduction initiatives included a significant overhead reduction in Caversham, where operations were restructured during the year, and benefits from the operations excellence program, particularly in Wacol.

Increased detached housing commencements across the country have been slow to translate into increased sales of roof tiles. This is due in part to a significant lag being experienced between a “recorded” commencement and the installation of tiles on site, a very competitive environment in Victoria, the nation’s largest roof tile market, and the ongoing threat of alternative roofing products in some regions.

Sales of imported La Escandella terracotta products continue to gather momentum, supplementing the locally manufactured concrete roof tile range on the East Coast.

Austral Precast earnings were also higher, with increases in New South Wales, Queensland and Western Australia partially offset by reduced earnings in Victoria. Sales revenue increased by 10.8% to \$70.3 million on the back of record sales volume for the year. Although precast remains a new business for Brickworks, the potential in most states appears to be beyond existing manufacturing capacity, with the current order bank in excess of six months sales volume.

An outstanding result was achieved in Queensland, with production capacity unable to meet the high level of demand. Opportunities to expand operations in that state are currently being considered. The New South Wales business is also experiencing very strong demand; however earnings in financial year 2014 were adversely impacted by ongoing and intermittent issues since the flooding of the Wetherill Park site in the prior year. Performance in Western Australia improved dramatically in the second half following a restructure completed midway through the year. In contrast to the other states, demand in Victoria is very poor. In this state a large number of precast suppliers are competing in very subdued market conditions, with a historically low level of factory and industrial building activity.

A number of new products were commercialised during the year, supporting the strategy of offering a “whole of structure” building solution. New products include the “PermaTech” architectural range of panels that feature various applied finishes, as specified on landmark projects such as Barangaroo in Sydney.

A range of cost reduction projects were completed during the year, including the centralisation of a number of detailing and back office functions. A steel mesh plant was installed at Wetherill Park in the second half, further enhancing the efficiency of this plant.

Auswest Timbers earnings decreased, despite an increase in sales revenue, up 16.3% to \$49.8 million on record sales of around 60,000m³ for the year. Sales growth was due to a number of factors including the recommissioning of the Deanmill facility after significant disruption to operations in Western Australia during the prior year, pine batten demand on the East Coast and hardwood batten demand on the west coast, strong export demand; and increased value added sales in Victoria.

Offsetting the improved volume was the challenging operating conditions in Western Australia where electricity costs were significantly higher due to increased capacity charges. In addition, operational efficiency in this state was adversely impacted by poor quality Jarrah log feedstock, resulting in lower production yields. A new grade of log was agreed with the Forests Products Commission late in the year that will resolve this issue going forward.

In Victoria, demand for value added product out of the Bairnsdale processing plant remains strong, with the growing demand for this high value product meaning that around 60% of output from Auswest Timbers’ Orbost mill is now directed to Bairnsdale for further processing.

During the year Auswest developed new ranges of large section timbers which are utilised by domestic and international furniture manufacturers for high valued furniture. Auswest’s unique range of hardwood products is now much sought after both domestically and in export markets with export revenue growing 88.6% compared to the prior year.

The rationalisation of the hardwood industry continues with significant competitors in Western Australia exiting the industry during the year, leaving Auswest as the only major supplier of Jarrah, Karri and Marri.

Land and Development

Land and Development produced an EBIT before significant items, of \$62.4 million for the year ended 31 July 2014, up 25.8% from \$49.6 million for the prior year.

Land Sales contributed an EBIT of \$21.0 million for the year compared to \$28.2 million in the prior year. The major transaction for the year was the sale of the first stage of Rochedale (“Rochedale North”) in Queensland into the Joint Venture Property Trust during the first half, providing a total profit of \$14.8 million. Other property sales for the year included former quarries at New Chum in Queensland and Buninyong in Victoria. In addition, Transgrid completed a compulsory acquisition of an easement over Horsley Park Plant 3 in New South Wales.

The improved result was primarily due to growth in the industrial **Property Trust**, generating an EBIT of \$43.4 million, up 78.8% from \$24.3 million in the prior year.

Net property income distributed from the Trust was \$13.0 million for the year, up from \$10.0 million in the year ended 31 July 2013.

The revaluation profit of stabilised Property Trust assets totalled \$11.5 million, up significantly from \$5.9 million due to compression in capitalisation rates of between 0.3% and 0.5%.

A significant EBIT of \$18.9 million was contributed through fair value adjustment and development profit following the completion of the expanded Coles cold store facility at M7 Business Hub and the fourth DHL facility at Oakdale Estate, both in New South Wales.

The total value of the Property Trust assets as at 31 July 2014 was \$979.0 million, with borrowings of \$381.5 million, giving a total net value of \$597.5 million. Brickworks’ share of the Trust’s net asset value was \$298.7 million up \$39.8 million from \$258.9 million at 31 July 2013. The change was primarily due to the sale of Rochedale North into the Trust, which increased assets by \$51.8 million, together with revaluations of existing and newly completed assets. This was offset by the sale of the expanded Toll facility in October 2013, which had net value to the Trust of \$16.5 million.

The royalty free period at Horsley Park Landfill ended in December 2013, enabling contributions to re-commence in January. **Waste Management** contributed a profit of \$1.4 million for the year, up from \$0.4 million in the prior year.

Property administration **expenses** totalled \$3.4 million, up slightly from \$3.3 million in the prior year. These expenses include holding costs such as rates and taxes on properties awaiting development.

Investments

The EBIT before significant items from Investments was down 25.6% to \$44.6 million in the year ended 31 July 2014.

Washington H. Soul Pattinson Limited (‘WHSP’)

ASX Code: SOL

WHSP maintains a substantial investment portfolio in a number of listed companies including significant holdings in Brickworks, New Hope Corporation, TPG Telecom Limited, API, Clover and Ruralco Holdings.

The normalised profit from this investment was \$44.4 million for the year, down from \$59.5 million in the year ended 31 July 2013.

The market value of Brickworks 42.72% shareholding in WHSP was \$1.530 billion at 31 July 2014, up 10.9% on the value at 31 July 2013. This investment continues to provide diversity and stability to earnings, with cash dividends of \$48.1 million received during the year.

WHSP has delivered outstanding results over the long term, delivering total shareholder returns of 13.0% p.a. over fifteen years, compared to the index return of 8.7% p.a.

Perpetual / M.H. Carnegie Proposal

A general meeting to consider the proposals put forward by Perpetual and Carnegie in October 2013 has been further postponed until 17 April 2015.

Reluctantly, Brickworks regards the further postponement as necessary because shareholders are not in a position to vote on the resolutions. In particular, Brickworks considers that the information provided to shareholders by Perpetual and Carnegie was incomplete, inaccurate and misleading at the time it was despatched in late 2013. That information is now also out of date. This is particularly the case given an ATO ruling was handed down in July 2014, rendering the meeting meaningless insofar as the proposals will not deliver the benefits claimed by the proponents.

Despite repeated requests by the Independent Board Committee of Brickworks and the withdrawal of the requisition for the related WHSP meeting, Perpetual and Carnegie have not agreed to cancel the Brickworks meeting.

The proposal from Perpetual and Carnegie has caused Brickworks to incur approximately \$2.8 million in costs during the twelve months to 31 July 2014. Of greater concern is the major distraction to management and staff, the full impact of which is difficult to quantify.

In the circumstances, Brickworks must continue with litigation to seek either the cancellation of the meeting or to ensure full and proper disclosure to shareholders.

Outlook

Building Products Group

The first half of financial year 2015 is likely to be the strongest market for more than a decade, with many customers reporting order banks that extend for up to a year. These conditions are being driven by the long awaited upturn in detached housing activity (particularly in New South Wales), combined with record levels of apartment construction. The latest detached housing approvals data remains strong and is still showing signs of growth in most states.

The strong market conditions are continuing to drive sales growth momentum, with year to date sales in all divisions currently exceeding the prior corresponding period, despite the impact of poor weather in New South Wales. Tempering this optimistic outlook is the very competitive nature of some markets where some competitors appear intent on increasing market share, as opposed to increasing profit.

Despite the removal of the carbon tax, Brickworks continues to face pressure from increasing gas prices, up by more than 100% over the past 6 years¹³. With energy prices representing almost 20% of the cost of bricks, this impact has contributed to a reduction in Building Products margins to unacceptable levels. This is despite Brickworks' significant capital investment in a range of energy reduction and alternative fuels projects to minimise the impact.

To restore margins to acceptable levels all divisions will implement price increases as and when necessary during the year, with Austral Bricks having implemented a price rise effective 1 July 2014.

During financial year 2015, major capital projects are planned at Malaga in Western Australia and Rochedale in Queensland and these projects will result in a short term impact to profitability. However these plant upgrades will significantly improve the cost position of these businesses and result in a much stronger competitive position going forward.

The Building Products Group expects to deliver an improved result in the first half of financial year 2015, on the back of continued sales growth and internal business improvement initiatives.

Land and Development

The Property Trust has seen significant growth during the 2014 financial year with the completion of three new assets providing an additional 64,335m² of net lettable industrial space. This has already increased the value of the Property Trust and will provide greater rental returns into the future.

The development of the Oakdale Estate continues to be a major focus, with final infrastructure works complete to Oakdale Central. Approval for the Trust to upgrade the section of Old Wallgrove Road leading to the Estate is expected to be secured in the second half of calendar 2014, with construction to follow in 2015. Together with upgrade works to the main section of Old Wallgrove Road, to be completed by Roads and Maritime Services, these infrastructure projects will reinforce the status of the area as a prime location for logistics businesses and warehousing.

Development of the Rochedale North estate will commence in late calendar 2014 to ensure delivery of the first pre-committed facility, totalling 12,912m², to Beaumont Tiles in late 2015.

¹³ Average across Brickworks operations

Tenant enquiry for this estate is already strong and the delivery of all infrastructure by the end of 2015 will assist in securing other pre-lease opportunities.

Land Sales will continue in financial year 2015 with the expected sale of the Riverview site in Queensland and the Port Kembla site in New South Wales. A number of small compulsory acquisitions, including 1.6 hectares at the rear of the Bellevue plant in Western Australia are also expected to occur.

Work continues on the rezoning of Craigieburn in Victoria and Cardup in Western Australia to residential. A draft Framework Plan on the Craigieburn site and surrounding area has been delayed but is now expected to be released by the Growth Areas Authority before the end of 2014. Significant progress has been made on the rezoning of Cardup, with the Structure Plan due to be exhibited by the end of 2014. Pending rezoning to residential, expected to take around one year, development of this site may commence in financial year 2016.

Investments

The diversified nature of WHSP's investments is expected to deliver stable earnings to Brickworks over the long term.

Brickworks Group

Building Products are expected to deliver improved earnings in the first half of the 2015 financial year. Property earnings are expected to be lower, with continued growth in net Property Trust income being offset by a reduced contribution from land sales. Investment earnings are expected to remain stable over the long term.

LINDSAY PARTRIDGE
MANAGING DIRECTOR