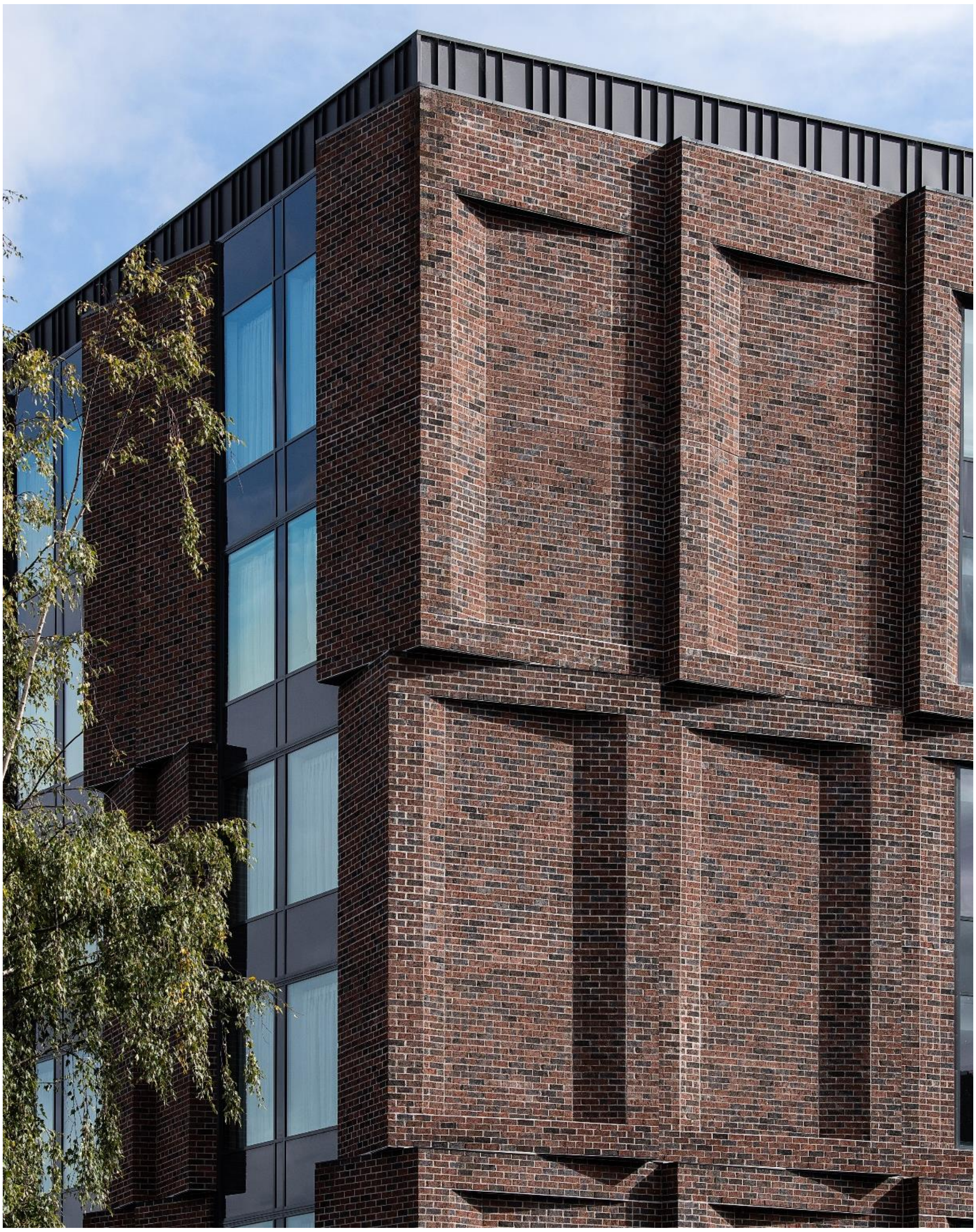
REVIEW OF **OPERATIONS**

2023

Extract from Annual Report



BRICKWORKS LIMITED

Five Year

Summary

	2019 $000	2020 $000	2021 $000	2022 $000	2023 $000	% Growth
Total revenue	**841,285**	**898,420**	**850,922**	**1,095,353**	**1,181,178**	**8%**
Earnings before interest and tax[1]						
Building Products Australia	57,690	39,513	47,768	152,869[2]	52,809	(65%)
Building Products North America	6,180	10,061	8,525	24,932	12,795	(49%)
Property	157,806	129,437	252,679	643,689	505,517	(21%)
Investments	103,725	50,771	96,946	180,712	158,707	(12%)
Head office and other expenses	(15,026)	(16,849)	(19,417)	(19,803)	(20,433)	(3%)
Total EBIT	**310,375**	**212,933**	**386,501**	**982,399**	**709,395**	**(28%)**
Total EBITDA	**343,945**	**283,699**	**454,290**	**1,057,924**	**784,138**	**(26%)**
Finance costs	(23,883)	(25,964)	(18,735)	(20,154)	(53,100)	(163%)
Income tax	(51,920)	(35,218)	(80,090)	(216,101)	(148,066)	31%
Underlying net profit after tax[1]	**234,572**	**151,751**	**287,676**	**746,144**	**508,229**	**(32%)**
Significant items net of tax	(37,086)	175,495	(44,892)	123,592	(102,965)	NA
Discontinued operations net of tax (inc. sig items)	(42,844)	(29,168)	(3,621)	(15,345)	(10,570)	NA
Net profit after tax (inc sig items, discontinued ops)	**154,642**	**298,078**	**239,163**	**854,391**	**394,694**	**(54%)**

Per share earnings and dividends						
Basic earnings per share (cents)	103.3	198.8	158.3	563.0	259.4	(54%)
Underlying earnings per share (cents)[1]	156.7	101.2	190.4	491.7	334.0	(32%)
Final dividend per share (cents)	38.0	39.0	40.0	41.0	42.0	2%
Total dividends per share (cents)	**57.0**	**59.0**	**61.0**	**63.0**	**65.0**	**3%**

Ratios						
Net tangible assets per share ($)	13.28	14.08	13.78	18.34	19.96	9%
Statutory return on shareholders' equity	7.1%	12.4%	9.6%	26.2%	11.1%	(58%)
Underlying return on shareholders' equity[1]	10.8%	6.3%	11.6%	22.9%	14.3%	(38%)
Interest cover ratio (underlying)	17.9	8.4	17.8	35.2	13.0	(63%)
Gearing (net debt to equity)	11.7%	18.9%	20.9%	15.1%	18.3%	(21%)

All revenue and earnings measures exclude significant items and discontinued operations unless otherwise stated

[1] This is an alternative measure of earnings that excludes significant items, which are separately disclosed in the consolidated financial statements
[2] Includes $89.076 million profit from sale of land into the BKW Manufacturing Trust (FY2022)

Chairman's

Letter[3]

On behalf of your Board of Directors, it gives me great pleasure to present Brickworks' Annual Report for the 2023 financial year (FY2023). It has been another successful year for the Company, with strong earnings achieved across our diversified portfolio of businesses.

Review of FY2023

Brickworks FY2023 result again demonstrates the resilience of our diversified business model, and the ability to deliver strong earnings across all parts of the business cycle.

This year, we have witnessed a dramatic shift towards restrictive monetary policy from central banks across the world, with a sharp increase in interest rates. Since I wrote in last year's report, the cash rate in Australia has increased from 1.35% to 4.10%.

Throughout the year, we have also navigated a range of other challenges, such as significant inflationary pressures, widespread labour shortages and raw materials supply issues.

Against this backdrop, we have continued our focus on disciplined execution of our strategy, to deliver long term value for shareholders.

Brickworks reported statutory Net Profit After Tax (NPAT) of $395 million. Although this was down 54%, last year's record result was boosted by a significant one-off profit in relation to the deemed disposal of Washington H Soul Pattinson (ASX: SOL, "WHSP") shares upon its merger with Milton in 2021. Excluding significant items and discontinued operations, the underlying NPAT in FY2023 was $508 million, down 32%.

Underlying earnings before interest, tax and depreciation (EBITDA) from continuing operations was $784 million, down 26%, and after depreciation and amortisation, EBIT was $709 million, down 28%. The decrease was primarily due to lower revaluation and development profits within the Industrial JV Trust with Goodman Group (ASX: GMG).

Although revaluations and development profits were lower, Property still produced a standout result, with the highlight for the year being the sale of Oakdale East into the Industrial JV Trust. This sale provides additional capacity within the Trust for further developments to meet the strong demand from our customers.

Despite the challenging macro conditions, structural drivers for well-located logistics facilities remain sound, driven by the continued growth of online shopping, the need for more productive and sustainable assets, and limited supply. These factors have driven a significant increase in rent for prime industrial facilities in Western Sydney, and this has underpinned the value of our property assets. These industry trends also resulted in lower capitalisation rate expansion across our portfolio, compared to most other property asset classes.

Investments had another strong year, despite a lower earnings contribution, with higher dividend payments and a significant uplift in market value of WHSP.

Within Building Products, sales remained resilient, despite the impact of lower building activity across Australia and North America. In both countries, we have been impacted by significant labour and raw materials cost increases, and this has placed pressure on margins.

This has re-enforced the importance of improving our operational efficiency, a fundamental pillar of our strategy. In relation to this, we have faced short-term disruption, for long-term gain. In Australia, we have now completed the construction of our new brick plant at Horsley Park and masonry plant at Oakdale East. Both of these projects have involved transitioning to new sites and this has adversely impacted our operations over the past few years. In North America, we have now completed our multi-year plant rationalisation program to improve network utilisation and efficiency.

With these significant milestones achieved, we are now focussed on executing our business plans and maximising the return on these investments.

Portfolio Evolution

Brickworks has undergone a significant transformation over the past five years, underpinned by a considerable investment program (including acquisitions and capital projects), a range of market factors and portfolio rationalisation.

At the end of FY2018 our gross assets, as recognised on the balance sheet were $2.9 billion. This has since increased by $3.2 billion, and now stands at over $6.1 billion.

The increase in asset backing has been driven by growth across all of our key divisions: Property, Building Products and Investments.

The growth in Property has been the most significant. The net asset value of our Property Trust assets was $0.5 billion at the end of FY2018. This value has increased by $1.7 billion to $2.3 billion at the end of FY2023. This has been driven by:

- the continued sale of surplus Building Products land into the Industrial JV Trust, and their subsequent development;
- the strong growth in value of prime industrial property, in response to structural trends; and
- the launch of the Brickworks Manufacturing Trust (which houses many of our Australian Building Products operational sites).

The value of Investments has also grown significantly over the past five years. The equity accounted value of our investment in WHSP, as held on the balance sheet, is currently $2.1 billion. Our balance sheet does not fully recognise the market value of our shareholding, which currently stands at $3.1 billion. This is an increase of $0.9 billion since 2018, even after the sale of 7.9 million shares in late 2018 for $208 million in gross proceeds.

During the same period, we have invested significantly in our Building Products business. This investment has focussed primarily on growing our exposure to bricks, through international expansion into North America. In Australia, the brick business is by far our largest and most profitable business unit. Within these operations, we enjoy full vertical integration, through quarry ownership and control of our raw materials supply, and direct sales to our major customers.

[3] All revenue and earnings measures throughout this report exclude significant items and discontinued operations unless otherwise stated.

Our brick factories are typically located on vast tracts of land on the outskirts of the major cities. As the urban sprawl expands, our land become increasingly valuable, and it is this land that feeds the development pipeline for our property business. Whilst this process may take decades, we see this "virtuous circle" between bricks and property as a unique competitive advantage.

Whilst Building Products remains very much at the heart of our company and continues to represent the day-to-day focus for operational activities, the evolution of our portfolio over the past five years means that we now have significantly more assets invested in Property and Investments.

Today, more than ever before, we have a diverse portfolio of strong assets, well positioned to deliver long-term growth. Our diversity is a strength and provides us with opportunities to invest capital in the most attractive and highest growth opportunities. This will continue to result in portfolio evolution over time.

Dividends and Capital Management

The Directors have declared a fully franked final dividend of 42 cents per share, up 2% on the prior year. This brings total dividends for the year to 65 cents per share, up 2 cents or 3%.

We are proud of our long history of increasing dividends. FY2023 marks the tenth year in succession we have increased our dividend and we have not reduced the dividend for 47 years. This is a testament to our strong financial position, prudent capital management and our diversified business model.

Net debt increased by $159 million during FY2023 to finish the year at $652 million, with gearing of 18%. With our major investment program now largely complete, we expect an increase in cash generation over the coming years.

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.

At last year's Annual General Meeting, Robert Webster retired from the Board, following 21 years of service. I would like to thank Robert for his invaluable contribution to the Company during that time.

Following a comprehensive search process, we were pleased to announce the appointment of Joel Fitzgibbon, as an independent non-executive Director, effective from January 2023. Joel brings to our Board considerable expertise in public policy, social and environmental issues and is an ideal appointment for Brickworks in managing its multiple stakeholders and regulatory expectations.

The Board now comprises seven directors, including four independent non-executive directors.

As we announced last year, Michael Millner intends to retire at the 2023 Annual General Meeting, following 25 years of service.

In Conclusion

We believe Brickworks diversified portfolio of attractive assets offers shareholders compelling value, stability, and good prospects for long term growth.

Despite the headwinds across the property sector, our industrial assets are resilient and in high demand. Within Building Products, our major investment program is largely complete, and we now turn to maximising the return from those investments. Our investment in WHSP continues to deliver strong returns and asset growth.

The continued strong performance of the Company is a credit to our 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 AO
Chairman

Managing Director's

Overview

Despite challenging macro conditions, the financial performance of the Company has been resilient in FY2023. Our teams have also remained focussed on disciplined execution of our strategy, in order to deliver sustainable earnings growth and long-term value to shareholders.

Safety

Before outlining the financial results in more detail, I will take some time to reflect on our workplace safety performance and sustainability initiatives.

The health and safety of our people is our number one priority. During the year, our safety performance improved, with fewer injuries being recorded across the organisation. The total recordable injury rate (injuries per million hours worked) has decreased to 10.0 in FY2023, down from 12.2[4] in the prior year.

However, these statistics are overshadowed by a fatal accident that occurred in July, when an employee of a contractor operating at our Austral Masonry plant in Cairns lost his life. The incident occurred during the processing of waste products under the management of a reputable concrete recycling company.

As we look back on the year at Brickworks, our thoughts turn to his family, and this tragic accident reinforces our ultimate goal of zero harm across all of our operations.

We continue to strive towards this goal, through disciplined implementation of safety management systems and procedures, together with behavioural leadership and safety training programs.

Sustainability

Sustainability is at the heart of our purpose: to make beautiful products that last forever. Products that stand the test of time.

Our bricks are made from clay and shale that is naturally abundant and often recycled. They are guaranteed for 100 years, and many installed 100 years ago remain in service today. Their longevity also allows bricks to be recycled and re-used, unlike many competing building products.

In Australia, carbon emissions have followed a general downward trend, with a 46% decrease compared to FY2006 (Scope 1 and 2). Our progress in this area is supported by product redesign, increased use of recycled materials, utilisation of green fuels such as landfill gas in some of our kilns, and capital investments into modern, fuel-efficient production processes. For example, at Horsley Park we have built the most energy efficient brick plant in the country, and replaced two kilns that were both more than 40 years old.

We have also made steady progress in North America. Since our entry into this market in 2018, we have achieved an 18% energy efficiency improvement, primarily through our plant rationalisation and upgrade program.

Whilst we have made significant progress already, we are committed to achieving more. As such we have published a new carbon reduction target as part of our 2023 Sustainability Report: to achieve a 15% reduction in Scope 1 and Scope 2 greenhouse gas emissions by 2030, from a 2022 baseline, across our combined Australian and North American operations.

For hard to abate sectors such as brick manufacturing, effective regulation (such as a whole of life-cycle approach to emissions intensity), along with investment and innovation, is critical to ensure the optimal outcomes.

Brickworks is enhancing our commitment to investing in renewable biomethane and landfill gas opportunities. The Brickworks Bioenergy Transformation Initiative promises to lead the market in carbon reduction innovation within the Australian brick and building products sector. More information about this initiative is contained in our 2023 Sustainability Report.

Brickworks is also active in the community and has a long-standing partnership with the Children's Cancer Institute, having made direct and indirect contributions of almost $5 million since 2002.

Property

It has been another strong year for Property, generating EBIT of $506 million. Although this is 21% down on last year's record earnings, the result is the second highest we have ever achieved.

In December, we completed the sale of Oakdale East Stage 2 into the Industrial JV Trust, for $301 million. This site, adjacent to our existing Trust properties in Western Sydney, has around 50 hectares of net developable area.

With the Oakdale East Stage 1 site fully built out in FY2022, the sale of the adjacent and much larger Stage 2 site will significantly increase the scale of the Estate.

Consistent with our other sales into the Industrial JV Trust, our Joint Venture partner Goodman will contribute funds equal to the sale value of the site, for infrastructure and construction costs. As such, the development of this Estate is expected to be fully completed over the next five years, without any further capital requirement from Brickworks.

Within the Property Trusts (including the Industrial JV Trust and the Brickworks Manufacturing Trust), all assets were revalued during the year, and this resulted in a revaluation profit of $112 million (representing Brickworks' 50% share of the overall valuation gain). The significant growth in assessed market rent for the portfolio more than offset an increase in the average capitalisation rate.

The development focus during FY2023 was at the Oakdale West Estate where four facilities were completed, including a major distribution facility for Coles. Completion of these facilities, and substantial progress on the remaining sites within the Estate, resulted in significant development profits during the period.

The completion of new facilities continues to drive strong rental growth.

The revaluations and developments during the year have resulted in total gross assets within the Property Trusts increasing by around $1.1 billion to $5.8 billion. This includes $4.9 billion of leased properties and $0.9 billion in land under development. After including debt, Brickworks 50% share of net asset value held within the Trusts was $2,274 million at the end of the financial year.

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[4] The FY22 TRIFR has been restated to reflect the date of injuries being incurred (rather than the treatment date).

Building Products Australia

Building Products Australia recorded an EBITDA from continuing operations of $100 million in FY2023. After including depreciation and amortisation, EBIT was $53 million. Excluding the impact of land sales in the prior year, EBIT was down 17%.

Despite a significant decrease in new residential construction projects being commenced, demand was resilient throughout the year, with a large backlog of work under construction. This is due to supply chain issues across the sector over the past few years, with significant labour shortages and trade availability issues extending project timelines.

Margins were adversely impacted by inflationary pressures across key cost categories such as raw materials, labour and electricity. These impacts were most severe in our concrete products businesses. Fortunately, our brick operations are protected from raw material input cost increases, through our direct ownership of clay quarries.

During the second half, we made the difficult decision to cease the operations of Austral Bricks Western Australia, following many years of sustained losses. With the last brick being produced at the Cardup plant in April, the exit will be fully completed following the sell down of inventory within the next 6-12 months.

Our Western Australian brick operations were acquired as part of the Bristile takeover in 2003, and the history of plants such as Cardup dates back to the mid 1960's. We thank the many long serving staff that have left the business as part of this closure.

The exit of brick manufacturing in Western Australia follows the closure of Austral Precast and sale of Auswest Timbers in recent years. The increased scale of Brickworks, and the range of investment opportunities available, has brought sharp focus on our Building Products portfolio. We have rationalised our operations to focus in areas where we have the greatest competitive advantage and long-term prospects.

Construction of the new brick plant at Horsley Park is now substantially complete. This project started just prior to the onset of the COVID-19 pandemic, and has suffered significant disruption, delays and cost escalation. The completion of the project is testament to the perseverance of our team of employees and contractors, who have remained steadfast in their dedication, despite these issues. With the final commissioning process now well underway, we expect this plant to be operating at design capacity of 130 million bricks per year by the end of the first half of FY2024.

The completion of the new plant has allowed the closure of Plant 3 at Oakdale East and consolidation to the Horsley Park site. Plant 3 has been operational since 1975, and over its life has produced more than 4 billion bricks, enough to build around 450,000 homes.

Building Products North America

Building Products North America sales revenue of $447 million in FY2023 was up 12% on the prior year. Removing the impact of the weaker Australian dollar, revenue in local currency was up by a more modest 4%. The increase was primarily driven by price increases and sales growth through the vertically integrated retail division.

EBITDA of $40 million and EBIT of $13 million was recorded. This includes a contribution of $7 million from the sale and leaseback of a retail outlet.

Excluding the impact of land sales (in both FY2022 and FY2023), EBITDA was $33 million, 5% below the prior year. Like in Australia, margins were impacted by cost pressures. Our three largest cost items – labour, maintenance and raw material additives – were up 7%, 13% and 11% respectively on a per unit basis. If not for our plant rationalisation program and investments in automation, labour cost increases would have been significantly higher, with ongoing constraints across the industry resulting in higher wage rates to attract and retain staff.

Although earnings in North America have not yet reached our expectations, we continue to make good progress on key strategic priorities. As I just referred to, one of our most important initiatives has been an extensive plant rationalisation program, including the closure of 7 plants, as we have integrated new bolt-on acquisitions. As part of this process, we have transferred more than 170 products from these plants to other manufacturing facilities. While disruptive to the business in the short-term, the end result of this process is a more efficient plant network and a more focussed capital investment program.

Following numerous acquisitions, the retail distribution network now comprises 26 locations. During the year, all stores have been unified under one brand, "Brickworks Supply", with locations, market strategy and product range fully aligned.

Investments

Brickworks holds 94.3 million shares in WHSP, representing a 26.1% ownership interest. This investment provides a cash flow stream via dividends that provides stability and allows long term strategic decision making. Including a special dividend, total dividends payments of $89 million were received during the year, up 46% on the prior year.

EBIT from Investments was down 12% to $159 million.

Group Outlook & Priorities

The outlook varies across each of our divisions.

Despite increasing interest rates, we are continuing to experience strong demand for medium and large sized prime industrial **property**. Structural trends are driving our customers to seek well-located industrial facilities and sophisticated supply chain solutions, with consumers increasingly demanding faster and more flexible delivery of goods.

In addition, supply of suitable land is scarce, particularly in western Sydney. Sydney has the tightest logistics property market of any major city in the world, with a vacancy rate of just 0.2%. The tightness in the Sydney market is also reflected in a 0% vacancy rate across our portfolio.

Supply challenges across the industry are also being exacerbated by increasing construction and financing costs, and a range of planning and approvals issues.

All these factors have driven up rent for prime industrial property in western Sydney by 48% in the past year[5]. We estimate that the current passing rent within the Industrial JV Trust of $148/m^2 is now 34% below the market rent of $225/m^2. An uplift in rent to market rates will progressively be realised as existing leases are renewed, with current lease expiries ranging from less than 1 year to 19 years. The average lease expiry within the JV Industrial Trust is 7.9 years.

We have a large pipeline of new developments to meet the strong demand and benefit from the higher market rents. In the short term, the development focus is on the completion of Oakdale West within the next 12 months. In addition, work is well underway at Oakdale East Stage 2, and this parcel of land will provide a further pipeline of around five years.

With the completion of the two development parcels at Oakdale, and the mark-to-market rental uplift on currently leased assets, the total rent potential of existing Property Trust assets is around $350

[5] 12 months to June 2023. Source: Colliers Research

million (100% share), almost double the current passing rent of $178 million.

This rental growth will require no further capital from Brickworks, with the value of our land contribution at Oakdale East being matched by development funding by Goodman. In addition, the low gearing levels within the Industrial JV Trust will allow debt funding as required.

We believe the long-term prospects of the Property Trust are very strong, with future market rent to continue to be supported by the significant increase in construction costs, strong demand and tight supply. This step-change increase in rent should eventually be fully reflected in valuations.

As always, short-term Property earnings will depend on the timing of development activity and land sale transactions, and the extent of any revaluations.

In FY2024, we expect development profits to be lower than FY2023 due to the development schedule at Oakdale West and East, and we expect the portfolio valuation to be underpinned by the strong rental growth, even if capitalisation rates expand further.

Within **Building Products Australia,** order intake is now softening, and we are anticipating a decline in demand in the months ahead.

In this context, our focus will primarily be on manufacturing efficiency, cost discipline and achieving the price rises necessary to improve margins. As sales soften, we will also be focussed on matching production with demand across our network of plants, in order to optimise the level of working capital.

The impact of the slowdown in sales will also be offset by the portfolio rationalisation activities already completed, such as the exit of the loss-making Austral Bricks Western Australia business.

The completion of our new Sydney brick plant will round out a period of major capital investment over the past five years, that has also included a new masonry plant in Sydney, upgrades to our brick plants in Brisbane and Adelaide and the construction of the Southern Cross Cement terminal in Brisbane. Our teams are now working hard to maximise the returns from these projects.

In **North America,** market conditions across the residential segment are similar to Australia, with lower home construction activity expected in FY2024. In this market, we have greater exposure to the more buoyant non-residential segment, and this should provide some support for overall brick sales.

The severe labour shortages and inflationary pressures felt over the past three years appear to be easing. Manufacturing costs will also benefit from a more stabilised plant footprint, following the completion of the plant rationalisation plan.

Late last year, we executed a supply agreement with Brickability PLC, for the export sale of bricks into the UK market. We are looking forward to ramping up our supply into this market in FY2024. Product will initially be supplied from the Hanley and Pittsburgh plants in Pennsylvania. By late FY2024 we also expect to be supplying from the previously mothballed Rocky Ridge plant in Maryland, following the completion of an upgrade to this facility.

Over the long term, North American operations are expected to deliver increased earnings, with Brickworks continuing to implement our proven market strategy centred around style and premium product positioning.

We expect our **investment in WHSP** to continue to deliver superior long-term returns and dividend growth well into the future.

Looking more broadly, it is clear that we are entering an increasingly challenging period. Over the past 18 months we have witnessed the fastest interest rate rises in history across Australia and North America.

These rising interest rates will inevitably have a dampening effect on demand for building products and will also increase the risk of further capitalisation rate expansion across our property portfolio.

Despite these challenges, we are very well placed to continue to deliver strong performance and returns for our shareholders.

Having modernised our manufacturing fleet and expanded scale over the past five years through our significant investment program, our priority has now turned to maximising the returns delivered by the enlarged asset base and improving cash generation.

Our People

Finally, I would like to thank our people. We are a diverse business with 28 manufacturing sites currently operating across Australia and North America

Over the past five years we have streamlined our operations in Australia and North America, resulting in overall staff reductions of around 26%. Through this process, I am very proud that we have been able to maintain a stable and highly experienced leadership team and a committed workforce.

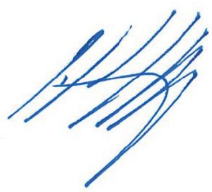
With just over 2,000 employees, we are more productive than ever, with production output and revenue per employee continuing to increase year on year.

I believe it is our people that give us a competitive edge, and it is their energy and dedication that will continue to drive our success.

In January, we were pleased to appoint JP Blanchard as President Brickworks North America. He will be focussed on continuing the momentum and progress the North American team has made on our strategy and to strengthen operational performance. He joins, having previously held leadership positions at a number of global companies.

We also recently announced the appointment of Mark Ellenor to the role of Chief Operating Officer. Mark has been with Brickworks for more than 20 years in various roles, most recently as Executive General Manager Building Products and President North America. In this new role, his responsibility will expand to include oversight of all our operations, including Property, and I look forward to working closely with him in this new capacity.

Finally, I would also like to take this opportunity to thank the Board of Directors and the executive team. As you can see, we have achieved a lot during the past 12 months, and none of this would be possible without their support and commitment.



Lindsay Partridge AM
Managing Director

Financial

Overview

- **Statutory NPAT** including significant items and discontinued operations, down 54% to $395 million
- **Underlying NPAT from continuing operations** before significant items, down 32% to $508 million
- **Underlying EBITDA from continuing operations** before significant items, down 26% to $784 million (underlying EBIT down 28% to $709 million).
  - **Property** EBITDA down 21% to $506 million.
  - **Investments** EBITDA down 12% to $159 million.
  - **Building Products Australia** EBITDA down 51% to $100 million. Excluding the profit associated with the sale of properties into the Brickworks Manufacturing Trust (in the prior year), EBITDA was down 13%
  - **Building Products North America** EBITDA down 18% to $40 million
- **Operating cashflow** down 26% to $97 million
- **Net tangible assets per share** up 9% to $19.96
- Share of **net assets held within Property Trusts** up $520 million, to $2.274 billion
- Share of **WHSP market value** up $685 million, to $3.108 billion
- **Final dividend** of 42 cents fully franked, up 1 cent or 2% (Record date 1 November 2023, payment date 22 November 2023)
- **Total full-year dividend** of 65 cents fully franked, up 2 cents or 3%

Earnings

Brickworks (ASX: BKW, the "Company") posted a statutory Net Profit After Tax (**NPAT**) of $395 million for the year ended 31 July 2023, down 54% on the prior year. The prior year was boosted by a significant one-off profit in relation to the deemed disposal of WHSP shares upon its merger with Milton.

Underlying NPAT from continuing operations was $508 million, down 32%.

Property Earnings Before Interest, Tax, Depreciation and Amortisation from continuing operations **("EBITDA")** was $506 million, driven by the sale of Oakdale East Stage 2 into the Industrial JV Trust[6]. In addition, earnings were supported by revaluation profits, development profits and net rental income. During the period, Brickworks' share of the net asset value within its Property Trusts increased by a further $520 million, and now stands at $2.274 billion. This includes the Company's 50.1% interest in the Brickworks Manufacturing Trust[7].

Investments EBITDA was $159 million, down 12%, with a reduced contribution from WHSP's Strategic and Private Equity portfolio. The market value of Brickworks' shareholding in WHSP was $3.108 billion at 31 July 2023, up by $685 million compared to 31 July 2022.

On revenue of $734 million (up 6%), **Building Products Australia** EBITDA was $100 million, down 51% on the prior year. Last year's result includes an $89 million profit associated with the sale of operational properties into the Brickworks Manufacturing Trust. Excluding this impact, EBITDA from continuing operations was down 13%. The decrease in earnings was primarily due to a decline in Bristile Roofing, together with broad-based inflationary cost pressures that impacted unit margins.

Building Products North America delivered a 12% increase in revenue, to $447 million, driven by strong price increases and the continued growth of retail operations. EBITDA was down 18% to $40 million, with margins adversely impacted by ongoing cost inflation and labour constraints across many operations.

Total **borrowing costs** were up 163% to $53 million, due to a higher average interest rate on debt and additional leases, including leases on properties held within the Brickworks Manufacturing Trust. Despite the higher borrowing costs, underlying **interest cover** remains conservative and finished the year at 13 times.

Underlying **income tax** from continuing operations was $148 million, down from $216 million in the prior year, due to the lower earnings.

Significant items decreased NPAT by $103 million for the year. This comprised:

- A non-cash impairment of $34 million (net of tax) based on AASB 136. This primarily relates to the Austral Bricks WA impairment recognised in January 2023 in consideration of the loss of market share in the first half and poor market outlook.
- $23 million in costs (net of tax) associated with the exit from the Western Australian brick market in the second half of FY2023. This includes non-cash inventory write-downs, redundancy payments and other liabilities.
- Plant relocation and commissioning costs of $18 million (net of tax), including the new Oakdale East masonry plant and costs associated with the new Horsley Park brick plant.
- Restructuring costs of $14 million (net of tax), primarily relating to plant closures in North America and associated redundancy payments. This includes an impairment to non-current assets at the Marseilles plant (Illinois).

[6] The Industrial JV Trust is a 50/50% partnership between Brickworks and Goodman (ASX: GMG).

[7] The Brickworks Manufacturing Trust is a 50.1/49.9% partnership between Brickworks and Goodman and comprises operational properties tenanted by Building Products Australia.

- A $1 million benefit arising from the net impact of the income tax expense in respect of the equity accounted WHSP profit, offset by the impact of fully franked WHSP dividend income, adjusted for the movements in the franking account and the circular dividend impact.
- An $8 million cost in relation to significant items from Investments (SOL and FBR). This includes a loss of $11 million, upon the derecognition of FBR Limited as an associate.
- Other costs of $7 million (net of tax), primarily in relation to acquisition, legal and IT costs.

Significant Items ($m)	Gross	Tax	Net
Impairment of non-current assets	(49)	15	(34)
Austral Bricks WA exit costs	(32)	10	(23)
Plant relocation and commissioning costs	(25)	7	(18)
Restructuring	(19)	5	(14)
Income tax from the carrying value of SOL	-	1	1
Significant items relating to Investments (SOL and FBR)	(10)	2	(8)
Other costs	(8)	1	(7)
Total (Continuing Operations)	**(144)**	**41**	**(103)**

Cash Flow

Total **cash flow from operating activities** was $97 million, down 26% on the prior year, with cash generation adversely impacted by significant plant commissioning costs and higher borrowing costs.

Capital expenditure was $114 million during the year, with the Company nearing the end of a significant investment program. The majority of major project spend was the construction of a new brick plant at Horsley Park in New South Wales.

Balance Sheet

During the year total shareholders' equity was up $301 million to $3.561 billion.

Net tangible assets ('NTA') per share was $19.96 at 31 July 2023, up from $18.34 at 31 July 2022.

Total interest-bearing debt was $722 million at 31 July 2023. After including cash on hand, **net debt** at the end of the year was $652 million, an increase of $159 million for the 12-month period.

Gearing (net debt to equity) increased to 18% at 31 July 2023, up from 15% at 31 July 2022, with the higher debt level partially offset by the increased asset base.

Net **working capital** was $260 million at 31 July 2023. This includes finished goods inventory of $264 million, down by $3 million on the prior year.

Dividends

Directors declared a fully franked final **dividend** of 42 cents per share for the year ended 31 July 2023, up 2% from 41 cents. Together with the interim dividend of 23 cents per share, this brings the total dividends paid for the year to 65 cents per share (fully franked), up 2 cents or 3% on the prior year.

Discontinued Operations - Austral Precast

Austral Precast was reclassified as held for sale in FY2022 and is not reported in underlying continuing operations.

In FY2023, Austral Precast contributed an EBIT loss of $11 million. The operational focus throughout the year has been on the completion of committed projects and selling down finished goods inventory. Manufacturing operations ceased in June 2023, and despatch of last remaining panels is now almost complete.

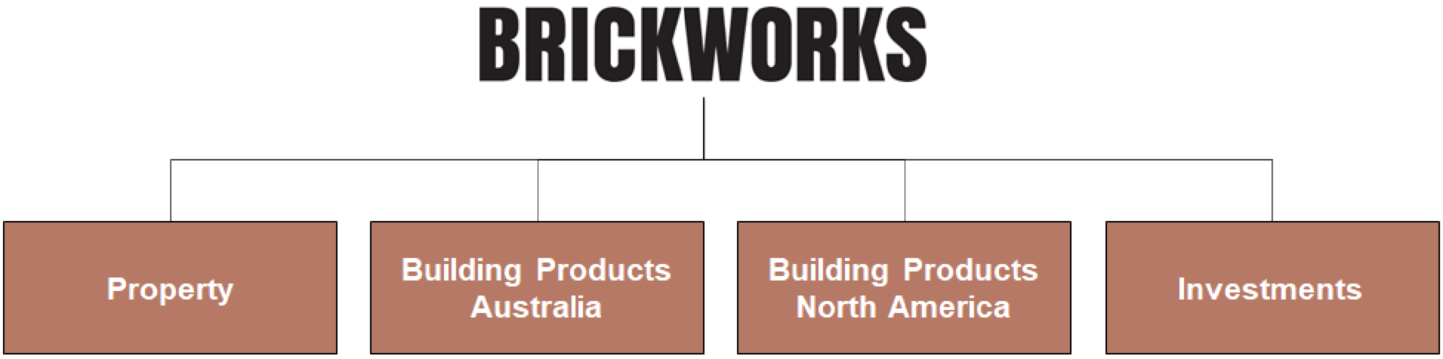
A sale of the remaining automated plant at Wetherill Park is continuing to be pursued.

Subsequent Events

On 1 September 2023 the Company filed proceedings in the Federal Court of Australia against BGC (Australia) Pty Limited and Midland Brick Pty Ltd seeking unspecified damages for various alleged contraventions of sections 46 and 50 of the Competition and Consumer Act. The claim is now before the Federal Court and a further update will be provided in due course.

Group

Structure



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

- Property;
- Building Products Australia;
- Building Products North America; and
- Investments.

Property

The Property division was originally established to maximise the value of land that is surplus to the Building Products business.

Over time, the Property division has evolved and now consists of two Joint Venture Property Trusts with Goodman Group, plus 100%-owned land holdings, both operational and for development.

Brickworks holds a 50% interest in the Industrial JV Trust. This was established in 2005, for the specific purpose of capturing the initial valuation uplift from re-zoning and then benefitting from the long-term value appreciation and the stable, growing annuity-style income stream derived from the developed assets. This Trust has grown significantly since its inception, and now has total assets of $5.4 billion. After including debt, Brickworks 50% share of the Industrial JV Trust has an equity value of $2,058 million.

In July 2022, Brickworks launched the Brickworks Manufacturing Trust. This comprises a portfolio of 15 manufacturing plants, tenanted by the Group's Australian Building Products businesses. Brickworks holds 50.1% ownership of this Trust, with the remaining 49.9% interest sold to Goodman Group.

The creation of this new Trust allows Brickworks to realise the underlying value of operational land assets and will be actively managed to improve site utilisation and enhance the value of these properties.

The Brickworks Manufacturing Trust has total assets of $431 million and no debt. Brickworks 50.1% ownership had an equity value of $216 million as at 31 July 2023.

Along with its interest in the Industrial JV Trust and the Brickworks Manufacturing Trust, Brickworks retains around 5,000 hectares of 100%-owned operational and development land across Australia and North America. This includes a number of sites earmarked for future development.

Building Products Australia

Building Products Australia is a leading manufacturer and distributor of building products across all Australian states. 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.

In total, Building Products Australia comprises 20 manufacturing sites (currently operating), 33 company-owned design centres and studios and a vast network of resellers across the country.

The portfolio includes:

- **Austral Bricks:** Australia's largest clay brick manufacturer
- **Bristile Roofing:** A leading roof tile manufacturer, offering supply and install of locally produced concrete and imported terracotta tiles
- **Concrete Products:** Includes Austral Masonry and a 33% interest in the Southern Cross Cement joint venture

Building Products North America

Building Products North America was established upon the acquisition of Glen-Gery in November 2018. This was followed by further bolt-on acquisitions of Sioux City Brick in August 2019, Redland Brick assets in February 2020 and Illinois Brick Co ("IBC") assets in August 2021.

Brickworks North America now has a leading position in the Midwest, Northeast and Mid-Atlantic states, and has a strong focus on architectural and premium products.

It has seven currently operating brick manufacturing sites and one manufactured stone plant. This is complemented by a network of 26 company-operated distribution outlets, three design studios (New York, Philadelphia and Baltimore) and a vast reseller network.

Investments

Investments consists primarily of a 26.1% interest in ASX-listed Washington H. Soul Pattinson ('WHSP') (ASX: SOL), which had a market capitalisation of $11.894 billion as at 31 July 2023. The market value of Brickworks stake in WHSP was $3.108 billion at this date.

WHSP is a diversified investment house with a portfolio encompassing strategic investments in major listed companies, a large cap equity portfolio, private equity investments, interests in a wide range of emerging companies and a structured yield portfolio.

The investment in WHSP dates back to 1968 and delivers a stable dividend stream that provides Brickworks with security to weather periods of weaker building products demand.

The investment has also delivered strong long-term returns to shareholders.

Investments also includes a 17.6% stake in FBR Limited ('FBR') (ASX: FBR). At the end of the year, the market value of Brickworks stake in FBR was $13 million.

Property

Property Earnings

Year Ended July ($million)	2022	2023	Change
Net Trust Income	36	50	37%
Revaluation of properties	227	112	(51%)
Development Profit	387	78	(80%)
Property Trusts	**651**	**240**	**(63%)**
Land Sales	(3)	269	NA
Property Admin and Other	(4)	(4)	-
Total	**644**	**506**	**(21%)**

Property delivered EBIT of $506 million in FY2023, down 21% on the prior year.

The highlight of the year was the sale of Oakdale East Stage 2 into the Industrial JV Trust, for $301 million. The 75-hectare site, located in Western Sydney, has an estimated 50 hectares of net development area and was previously the site of an Austral Bricks operated brick plant and quarry. The brick making operations have been consolidated to the nearby Horsley Park site, following the completion of a new plant in the second half of the year.

The sale delivered a profit of $263 million after taking into account the book value, rehabilitation provisions and transaction costs.

The Property Trusts, comprising the Industrial JV Trust and the Brickworks Manufacturing Trust, delivered an EBIT contribution of $240 million, down 63% on the prior period.

Net trust income was up 37% to $50 million for the year. This includes a $9 million contribution from the Brickworks Manufacturing Trust, launched in July 2022. Excluding this impact, net trust income from the Industrial JV Trust was up 12% to $40 million for the year. The increased rent reflects annual rent increases across the leased portfolio, plus the additional contribution from newly tenanted facilities at Oakdale West.

Independent revaluations were completed for Property Trust assets in December 2022 and in June 2023. A revaluation gain of $112 million within the Industrial JV Trust was partially offset by a revaluation loss of $3 million within the Brickworks Manufacturing Trust. Within the Industrial JV Trust, capitalisation rate expansion across the portfolio was more than offset by significant increase in the assessed average market rent for the leased assets within the Trust. Independent research reports indicate a 48% increase in rent for prime industrial property in Western Sydney over the last 12 months, due to strong competition for limited available space[8].

During the year, development activity within the Industrial JV Trust was focussed on the Oakdale West Estate. Construction of the 66,000m^2 Coles Distribution facility reached practical completion in January 2023. Other facilities for Australia Post, Telstra and Woolworths were also completed. Substantial progress was also made on construction of the remaining sites at this Estate. In total, a development profit of $78 million was recorded for the period.

Property administration expenses totalled $4 million, in line with the prior year. These expenses include holding costs, such as rates and taxes on properties awaiting development.

Property Trust Asset Value

As at 31 July 2023, the total value of leased assets held within the two Property Trusts was $4.9 billion. The annualised rent generated from these assets is $178 million and the weighted average lease expiry is 8.6 years (7.9 years for the Industrial JV Trust). The average capitalisation rate across the portfolio is 4.1%, and there are currently no vacancies in the portfolio.

Leased Facilities	Asset Value ($m)	Rent ($m p.a.)	WALE[9] (yrs)	Cap. Rate	GLA[10] (m^2)
M7 Hub	271	10	2.9	4.0%	64,200
Interlink	642	26	3.6	4.1%	192,200
Oak Central	920	33	3.0	4.0%	245,200
Oak South	691	23	5.6	4.0%	177,300
Rochedale	369	16	9.1	4.3%	126,500
Oak East	176	6	9.3	3.8%	37,100
Oak West	1,409	48	15.1	3.8%	235,500
Ind. JV Trust	**4,477**	**160**	**7.9**	**4.0%**	**1,077,900**
Man. Trust	431	18	15.1	5.0%	NA
Total	**4,907**	**178**	**8.6**	**4.1%**	

Including $878 million worth of land to be developed, the total value of assets held within both Property Trusts was $5.8 billion at the end of the year. Borrowings of $1.2 billion are held within the Industrial JV Trust, giving a total net asset value of $4.5 billion. Brickworks' 50% share of net asset value is $2.3 billion, up by $520 million during the year.

Gearing within the trusts was 21% at the end of the period, down from 24% at 31 July 2022. This comprises gearing of 23% within the Industrial JV Trust (well below the covenant of 60%), and no debt within the Brickworks Manufacturing Trust. At the end of the year the Interest Cover Ratio for leased assets within the Industrial JV Trust was 3.1 (vs a covenant of 1.5), the effective interest rate was 4.9% and interest rate hedges were in place over 75% of the loan book.

Year Ended July ($million)	2022	2023	Change
Leased properties	3,763	4,908	30%
Land to be developed[11]	867	878	1%
Total Property Trust assets	**4,630**	**5,786**	**25%**
Borrowings	(1,123)	(1,239)	(10%)
Net Property Trust assets	**3,507**	**4,547**	**30%**
Brickworks 50% share	**1,754**	**2,274**	**30%**
Gearing on leased assets[12]	24%	21%	(13%)

[8] Colliers Research. Increase for the 12 months to June 2023.
[9] Weighted average lease expiry (by income).
[10] Gross Lettable Area.

[11] Includes facilities under development.
[12] Borrowings / total assets.

Property Trusts - Development Pipeline

Despite challenging conditions across the broader commercial property sector, there is continuing strong demand for industrial land, particularly in Western Sydney, where supply is scarce. This dynamic reflects the ongoing structural changes across the economy, as companies modernise their supply chains in response to consumer preferences, such as online shopping and rapid delivery.

The Industrial JV Trust is ideally placed to take advantage of these trends, with a strong development pipeline in place.

At Oakdale West, an additional 140,000m^2 of gross lettable area ("GLA") remains available. This includes 47,000m^2 facilities already pre-committed to tenants Maersk, EBOS and Luxottica. Development of these facilities is underway and expected to be completed by March 2024.

To meet the strong customer demand, speculative units will be developed across the remaining available space at the estate. Of these, construction has already commenced on 23,000m^2, with a further 70,000m^2 to be commenced in the coming months. Strong enquiry for this space is being received, with Heads of Agreement for leasing of 33,000m^2 already in place.

The Oakdale West Estate is expected to be fully built out by July 2024, at which time it is expected to generate $80 million in rent (100% share).

The addition of Oakdale East Stage 2 into the Industrial JV Trust during the first half of 2023 provides a significant new parcel of land to accommodate the strong customer demand for well-located sites, with large land footprints. Work is well underway on the rehabilitation of the former quarry area, which has a longer lead time than other sections of the site. It is expected that the first parcel of land within the estate will be fully serviced and ready for construction to commence by early calendar 2024. Strong enquiry is already being received from customers looking to secure facilities at this Estate.

Over 260,000m^2 of GLA will be delivered at Oakdale East Stage 2 over the medium term, and once completed, is expected to add $59 million in gross rent to the Trust (100% share).

Operational and Development Land

Outside of the Trusts, Brickworks retains a 100% interest in over 5,000 hectares of land across both Australia and North America. This includes properties that have been identified for potential sale into the Trusts over the coming years, subject to receiving the necessary development approvals.

The largest additional parcel of land for potential development is at Craigieburn in Victoria, directly south of the Wollert factory site. Industrial development may be possible at this site over the medium term, subject to approvals. With an expected yield of around 600,000m^2 of GLA, if sold into the Industrial JV Trust, this site will extend the development pipeline well beyond the next five years.

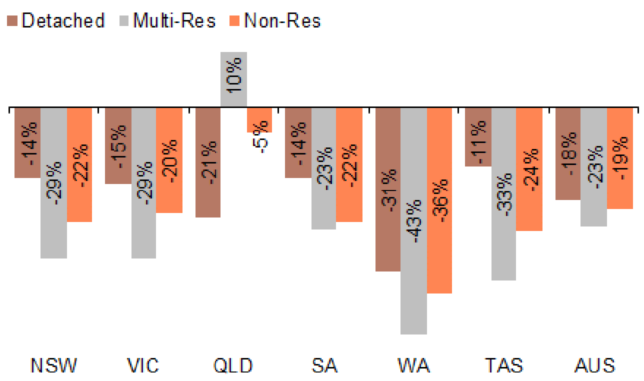
In conjunction with Goodman Group, due diligence has been ongoing into the industrial development of 77 hectares of land at the Mid-Atlantic site in Pennsylvania. The site, located close to the I-78 motorway linking New York to Washington D.C., is currently zoned industrial. Applications to facilitate the development of a 185,000m^2 estate have been lodged with local authorities, with approvals expected by mid-2024.

Building Products

Australia

Market Conditions

Change in Commencements (FY2023 vs FY2022)[13]



Residential commencements declined significantly during the 2023 financial year, in response to rising interest rates and a reducing backlog of work from the HomeBuilder program.

Nationally, detached house commencements were down 18%, with relatively consistent declines across all states. Although the decline in commencements has been significant, there has been a healthy pipeline of projects under construction throughout the year. Over the past two years, building timelines have been extended due to supply chain delays and labour constraints. As a result, the usage of bricks and roof tiles on-site is now typically lagging commencements by six months or more.

Multi-residential commencements were also lower during the period, with supply constraints delaying many new projects. Current activity levels in this sector are around the weakest since 2012.

Looking across the states, residential housing activity has been weakest in Western Australia, with detached house and multi residential commencements down 31% and 43% respectively. The major east coast states have typically seen detached housing declines in the range 10-20%. One positive for the year was an increase in multi-residential commencements in Queensland, up by 10%.

Non-residential building is also weaker across major states, with New South Wales down 22%, Victoria down 20% and Queensland down 5%.

Overview of FY2023 Result

Year Ended July ($ million)	2022	2023	Change
Revenue	694	734	6%
EBITDA	205	100	(51%)
EBIT	**153**	**53**	**(65%)**
EBITDA (ex-Property Sale[14])	116	100	(13%)
EBIT (ex-Property Sale)	**64**	**53**	**(17%)**
EBITDA margin (ex-Property Sale)	16.7%	13.7%	(18%)
EBIT margin (ex-Property Sale)	9.2%	7.2%	(22%)

Revenue from continuing operations for the year ended 31 July 2023 was up 6% to $734 million. The higher revenue was driven by strong price increases being achieved across most businesses, with higher revenue in Austral Bricks and Concrete Products being partially offset by a reduction in Bristile Roofing.

EBIT from continuing operations was $53 million, down 17% on the prior year, excluding the one-off impact of the sale of land into the Brickworks Manufacturing Trust in the prior year. The launch of the Trust resulted in an adverse impact of $5 million to EBIT in FY2023, compared to the prior period. This relates to the additional right-of-use asset depreciation in respect of the new property leases.

EBITDA (ex-property sales) was down 13% to $100 million, resulting in an EBITDA margin of 14%. The weakness was due to a decline in Austral Bricks and Bristile Roofing, partially offset by an improvement in Concrete Products.

Demand remained resilient in FY2023, despite the decline in housing commencements. This has been underpinned by the significant backlog work under construction, due to a range of supply side challenges over the past 12-24 months. Most notably, this has included a tight labour market that has limited the availability of trades across the sector.

Unit margins decreased as a result of cost pressures across the supply chain. Raw materials cost increases across Concrete Products and Bristile Roofing were particularly severe.

The implementation of price rises and productivity improvement initiatives partially offset the impact of cost increases. Additional price increases were implemented late in the year to restore margins to prior levels.

[13] Source: BIS Oxford Economics Australian Building Forecasts, June 2023. Figures shown are for the 12 months ended in June.

[14] Excludes $89.076 million profit from sale of land into the BKW Manufacturing Trust in FY2022.

Austral Bricks

On a 3% reduction in sales volume, Austral Bricks revenue increased by 4% to $486 million, with strong price increases achieved across most states.

Price increases were unable to fully offset significant cost pressures. Across Austral Bricks, unit electricity costs were up 28% year on year, labour was up 13% and maintenance was up 12%.

As a result, margins were lower, and EBIT declined by 3% on the prior year. Looking across the states, earnings were relatively steady in New South Wales and Victoria. In Queensland, where sales activity was softer, earnings were down on the prior year. Meanwhile, performance in South Australia was impacted by an unplanned shut down at the Golden Grove plant in the first half, to undertake critical kiln repairs.

The construction of the new $205 million brick plant at Horsley Park in Sydney was substantially completed in the second half, with commissioning now well underway. The completion of the project resulted in the permanent closure of the Plant 3 site at Oakdale East, and the consolidation of operations in Western Sydney to the Horsley Park site. Commissioning of the new plant is expected to be completed during the first half of FY2024.

In the first half of FY2023, sales in Western Australia declined further, primarily as a result of the loss of key customer accounts in response to an attempt to increase prices. This followed many years of sustained operating losses in this state.

Following a detailed review of the outlook and strategic options, in the second half of FY2023 it was decided in that further investment in Western Australia could not be justified. As such, manufacturing operations have ceased, and a controlled exit of Austal Bricks Western Australia operations is underway. Following the closure of Bellevue plant in November, the Cardup plant was subsequently closed in April. Sales teams are now focussed on realising the maximum value from the controlled sell-down of finished goods inventory, and this process is expected to continue for another 6-12 months.

In total, significant item costs of $55 million (post-tax) were incurred in relation to Austral Bricks Western Australia in FY2024. This includes an impairment of $32 million recognised in the first half, and a further $23 million in exit costs, predominantly non-cash write-downs of inventory and raw materials, incurred in the second half.

Advanced Cladding Systems, a new business unit within Austral Bricks, was launched during the year. This business will focus on commercialising thin brick cladding systems, a product category that is experiencing growing demand, particularly in high rise commercial and multi-residential segments. The response from customers has been positive, with initial sales being delivered in the second half, and a high level of enquiries.

Concrete Products

Concrete Products earnings increased compared to the prior year, on a 20% uplift in sales revenue to $145 million.

Within Austral Masonry, earnings were relatively steady, with a strong increase in sales offset by lower margins. The decline in margins was primarily attributable to a sharp increase in unit manufacturing costs, including raw materials prices up 19% and packaging costs up 18%.

Whilst price rises were not able to fully offset the impact of cost pressures during FY2023, additional price increases implemented in July are expected to restore margins to previous levels.

Commissioning of the Oakdale East plant in Sydney was completed during the first half. This new facility incorporates the latest block-making technology, and includes an associated value-added facility, to create products such as polished pavers and split face retaining walls. In order to take full advantage of the new plant capabilities, product development efforts have been ramped up, with a number of exciting new products expected to be launched in the coming years.

Austral Masonry’s strategy to expand beyond traditional commodity block products, into a range of premium product categories continues to gain traction. This includes products such as premium coloured block produced at Gympie (Queensland), premium stone and granite pavers, and concrete sleepers for residential and commercial applications.

Southern Cross Cement delivered a significantly improved result, and continues to provide quality, cost-effective cement to Austral Masonry and Bristile Roofing operations in Brisbane, as well as to other joint venture shareholders. A new cement supply contract was secured in December.

Bristile Roofing

Bristile Roofing earnings (including Capital Battens) were lower than the previous corresponding period, on a 4% decrease in revenue to $102 million. The decline in revenue was primarily attributable to lower sales volume in Victoria and New South Wales. This was offset by an increase in sales revenue from Capital Battens.

Like Austral Masonry, margins were adversely impacted by a significant increase in raw materials prices. In addition, trade shortages remain a significant issue for both tile and metal roof installations. This resulted in higher labour rates being necessary to secure installation crews for fixed price installation contracts.

Labour constraints also impacted tile production at Wacol (Queensland) and Dandenong (Victoria), due to a loss of skilled employees at both sites.

In the first half, severe wet weather in Queensland impacted the availability and quality of sand supply to the Wacol plant. Sand is a critical input material in the production of tiles, and the flow-on effect caused manufacturing inefficiencies and product quality issues.

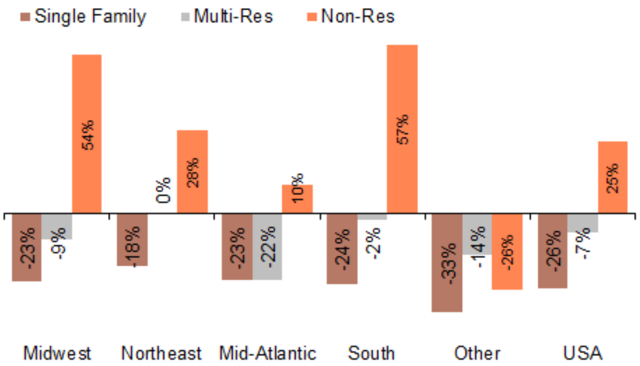
Capital Battens recorded higher revenue and earnings, despite the impact of a log supply shortage that necessitated the procurement of alternative, lower quality feedstock.

Building Products

North America

Market Conditions

Change in Commencements (FY2023 vs FY2022)[15]



Building activity in the United States has been mixed during the year, varying significantly by region and segment.

Across the country, the total value of building activity commenced for the 12 months to June 2023 was up 2% compared to the prior period. A 25% increase in non-residential was offset by a 26% reduction in single-family and a 7% decline in multi-residential commencements.

Building activity in the non-residential segment was heavily impacted following the pandemic, with many major projects delayed or cancelled by state authorities. Since then, there has been an uplift in activity, and this has gathered momentum in the past 12 months.

By contrast, following two years of strong activity, the single-family segment has softened significantly across the country, with consistent declines across all regions. Multi-residential commencements were also lower. However, there has been a general trend back towards this segment, due to the relative affordability (vs single-family homes), particularly in the Northeast (including states such as New York, New Jersey and Pennsylvania) and southern regions (such as Texas and Florida).

Building Products North America's key regional exposure is in the Midwest, Mid-Atlantic and Northeast. Combined, these three regions make up around 90% of total sales revenue. Building activity in these regions was relatively consistent with the rest of the country, with increased activity in non-residential building offset by weakness in the single-family segment.

The largest regional exposure is the Midwest, making up 59% of sales revenue, driven by a strong retail presence in this area.

Increases in institutional spending and affordable housing initiatives resulted in a 22% increase in sales in Canada during the year, albeit from a relatively low base.

Overview of FY2023 Result

Year Ended July (AU$ million)[16]	2022	2023	Change
Revenue	399	447	12%
EBITDA	48	40	(18%)
EBIT	**25**	**13**	**(49%)**
EBITDA (ex-Property Sales)	35	33	(5%)
EBIT (ex-Property Sales)	**12**	**6**	**(47%)**
EBITDA margin (ex-Property Sales)	8.8%	7.5%	(15%)
EBIT margin (ex-Property Sales)	2.9%	1.4%	(52%)

On sales of 368 million bricks, Building Products North America generated $447 million revenue for the twelve months to 31 July 2023, 12% above the prior year. In local currency, revenue was up 4% to US$301 million.

Despite a 5% decrease in brick sales volume (by units), the uplift in revenue was achieved due to a combination of price increases, a mix shift towards higher value products and strong sales growth through the vertically integrated retail division. Retail sales were supported by the full year contribution from Washington D.C. brick distributor, Capital Brick, acquired in February 2022.

Sales volume to the core commercial sector was higher, as it continues to steadily recover following the impact of the pandemic.

EBITDA for the year was down 18% to $40 million and EBIT was down 49% to $13 million.

This result includes a $7 million contribution from the sale and leaseback of a retail outlet in the second half. Excluding the impact of land sales in both FY2022 and FY2023, EBITDA was down 5% to $33 million, and EBIT was $6 million.

Margins were adversely impacted by a range of inflationary pressures. Operations continue to be impacted by labour constraints across the industry, resulting in higher wage rates to attract and retain staff. In North America, labour costs represent 43% of total brick manufacturing costs – much higher than 28% in Australia. As such, the higher labour rates have a significant impact on overall manufacturing costs.

Excluding the impact in relation to labour, manufacturing costs were held relatively steady, with increases in maintenance and additives offset by savings across a range of other cost items. Fortunately, favourable long-term natural gas supply agreements, at fixed prices, provide insulation against the current volatility in energy markets.

The business made strong progress on key strategic priorities over the period. Extensive upgrades to the Sergeant Bluff and Adel plants (both in Iowa) were completed during the year. These upgrades were focussed on providing additional output to meet growing market demand and included works to expand kiln

[15] Source: Dodge Analytics USA Building Starts Forecast – June 2023. Figures shown are for the 12 months ended in June.

[16] An average exchange rate for each half year period is used to convert from US$ to AU$. The conversion rates used are: 1H23 US$0.67; 2H23 US$0.67; 1H22 US$0.73; 2H22 US$0.71.

capacity and upgrades to the kiln car fleet and dryers. At Adel, the second kiln was activated, including the conversion of the kiln to use natural gas.

In addition, production of handmade and thin bricks was consolidated to the Mid-Atlantic and Pittsburgh plants, respectively (both in Pennsylvania). This will provide more efficient and sustainable production methods to support improved quality and higher production output to meet the growing demand for these products.

The plant rationalisation program continued during the year, with the closure of Caledonia (Ohio) in the first half and then Marseilles (Illinois) in the second half. Following these closures, the plant rationalisation program is now largely complete and has resulted in a reduction in operating brick plants to 7 (from 16), an increase in plant utilisation to 72% (from 46%) and a more modern and fuel-efficient fleet, with the average age of kilns reduced to about 20 years (from more than 40 years). It has also supported a total headcount reduction of around 27% across Brickworks North America[17].

The rationalisation program has caused some short-term disruption and inefficiencies, with many popular products from closed plants being retained and transferred to new plants. To ensure consistency, this process has necessitated a stringent product development and approval process.

Longer term, the rationalisation program, together with plant upgrades, will result in improved efficiency across the plant network and lower unit manufacturing costs.

Following numerous acquisitions, the retail distribution network now comprises 26 locations. All stores have been unified under one brand, “Brickworks Supply”, with locations, market strategy and product range fully aligned. During the year, a key outlet in the Washington D.C. area was re-located to an upgraded site, with increased under-cover storage and an expanded showroom, to capitalise on the strong growth in this region.

During the year, the North American business implemented an ERP software upgrade, migrating to a version that is consistent with Australian operations. This version has improved software support and is more aligned with business processes.

UK Supply and Rocky Ridge Upgrade

In October 2022, Brickworks executed a supply agreement with Brickability PLC, a market leading building products company in the UK, for the export sale of bricks into the UK market. The ten-year supply agreement includes a minimum purchase quantity of 10 million bricks per year.

The UK supply agreement marks a significant growth opportunity for Brickworks North America. Bricks command 85% share in external walling in UK housing and the total market demand is estimated at around 3 billion bricks per year. Of this, around 10-20% of UK supply is sourced from imports due to a shortfall in domestic production capacity and demand for premium, differentiated product lines.

Initially, product will be supplied from the Hanley and Pittsburgh plants in Pennsylvania. In addition, the Rocky Ridge plant in Maryland is currently being re-commissioned and will produce a range of bricks specifically tailored for the UK market. In addition, the plant will produce US modular brick, which will support an increase in demand for this product on the east coast, as well as a premium long format brick, which is also growing in popularity.

[17] Measured by the current headcount vs total headcount of all acquired operations.

Investments

Investments consists of Brickworks shareholdings in WHSP (ASX: SOL) and FBR (ASX: FBR), in addition to interest income on cash holdings. The EBIT from Investments was down 12% to $159 million for the year ended 31 July 2023.

Washington H. Soul Pattinson Limited ('WHSP')

ASX Code: SOL

Brickworks holds 94.3 million shares in WHSP (representing a 26.1% ownership stake), with the initial investment dating back to 1968. This shareholding is an important source of earnings and cash flow diversification for the Company and has been a key contributor to Brickworks' success for more than five decades.

The market value of Brickworks shareholding in WHSP was $3.108 billion at 31 July 2023, up $685 million for the year.

WHSP has delivered strong returns to Brickworks, with 25-year total shareholder return of 13.6% per annum (to 31 Jul 2023), 5.0% per annum ahead of the All-Ordinaries Accumulation Index. Shareholder returns comfortably exceed the benchmark over most time periods.

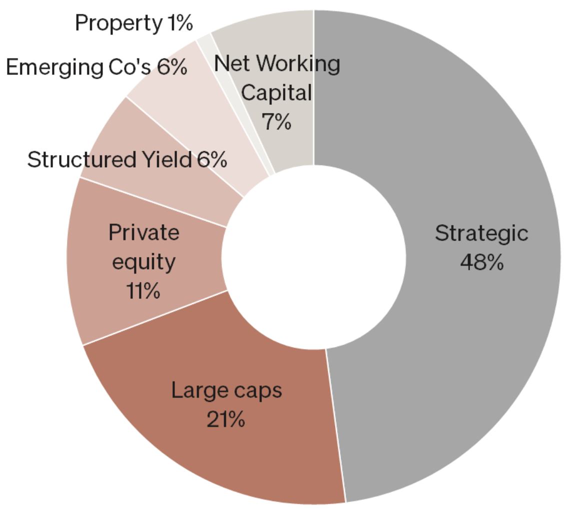
The investment in WHSP returned an underlying contribution of $160 million for the year ended 31 July 2023, down 11% from $180 million in the prior year. The decrease was primarily due to a lower contribution from the Strategic and Private Equity portfolios.

During the period cash dividends of $89 million were received, up 46% on the prior year. This includes $14 million in special dividends.

WHSP holds a diversified portfolio of investments. A break-down of WHSP assets as at 31 July 2023 is shown in the chart below.

Strategic investments include significant stakes in a number of listed companies including Brickworks, TPG Telecom, New Hope Corporation and TUAS.

Other assets include a portfolio of ASX listed large cap companies, private equity investments, a portfolio of listed and unlisted emerging companies, structured yield and direct ownership of property.



FBR Limited ('FBR')

ASX Code: FBR

Brickworks made an initial seed investment in FBR Limited in 2006. During the first half of FY2023, Brickworks significantly increased its stake, and now holds 655.4 million shares. At the end of the year this represented a 17.6% shareholding.

FBR has commenced the commercialisation process for a bricklaying robot that has the potential to build walls faster than traditional methods, and with much reduced labour. With an ongoing shortage of bricklayers, exacerbated by the current tight labour market, there is a strong market opportunity for this technology. As the largest brick maker in the country, Brickworks has much to benefit from the success of FBR.

During the period between November 2022 and March 2023, Brickworks held a 19.6% stake in FBR. Based on AASB 128, Brickworks held significant influence in this entity during this period. As a result, the investment in FBR was classified as an associate, with the Group's share of FBR earnings being consolidated, using the equity method of accounting. During this period, an EBIT loss of $2 million was recorded, recognised within Investments.

In March 2023, FBR completed an equity raise which led to dilution of Brickworks shareholding. Consequently, the Group no longer held significant influence and the investment in FBR was derecognised as an associate. Upon derecognition, a post-tax loss of $10 million was incurred, as a significant item. This loss reflects the recent decline in the share price of FBR.

At the end of the period, the market value of Brickworks stake in FBR was $13 million.