

# CORPORATE GOVERNANCE STATEMENT

*The Brickworks Limited (**Company**) Board is committed to developing and maintaining good corporate governance and recognises that this is best achieved through its people and their actions. Brickworks Limited's long term future is best served by ensuring that its employees have the highest levels of honesty and integrity and that these employees are retained and developed through fair remuneration, appropriate long term incentives and equity participation in the Company. It is also critical to the success of the Company that an appropriate culture is nurtured and developed, starting from the Board itself.*

*This Corporate Governance statement has been summarised into sections in line with the 8 essential corporate governance principles as specified in the ASX Corporate Governance Council's "Corporate Governance Principles and Recommendations (3rd Edition)".*

*A summary of corporate governance information can be found on the Brickworks website at [www.brickworks.com.au](http://www.brickworks.com.au).*

## 1. LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

### 1.1. Board Composition

It is Board policy that the majority of the Board should be non-executive and independent Directors and the Chair should be a non-executive Director. At the date of this report, the Board consists of six non-executive Directors listed in the Directors' Report and the Managing Director, Mr Lindsay Partridge. The current directors and their appointment dates are as follows:

#### Non-Executive

**ROBERT D. MILLNER** FAICD  
**CHAIRMAN** Director since 1997 (20 years)

Mr. R. Millner is the non-executive chairman of the Board. He first joined the Board in 1997 and was appointed chairman in 1999. Mr Millner has extensive corporate and investment experience. He is a member of the Remuneration Committee and the Nomination Committee.

**MICHAEL J. MILLNER** MAICD  
**DEPUTY CHAIRMAN** Director since 1998 (19 years)

Mr. M. Millner is a non-executive Director who was appointed to the Board in 1998. He is on the board and a councillor of the Royal Agricultural Society of NSW, including Chair of the RAS Foundation, and has extensive experience in the investment industry. Mr Millner is the deputy chairman of the Board, and a member of the Remuneration Committee and the Nomination Committee.

**BRENDAN P. CROTTY** LS; DQIT; Dip. Bus Admin; MAPI; FAICD; FRICS  
**DIRECTOR** since 2008 (9 years)

Mr Crotty was appointed to the Board in June 2008 and is a non-executive Director. He brings extensive property industry expertise to the Board, including 17 years as Managing Director of Australand until his retirement in 2007. He is a director of a number of other entities that are involved in the property sector, including Chairman of Western Sydney Parklands Trust as well as being on the Macquarie University Council. He is the Chair of the Remuneration Committee, and a Member of the Audit and Risk Committee and the Nomination Committee.

**DAVID GILHAM** FCILT; FAIM; FAICD  
**DIRECTOR** since 2003 (14 years)

Mr. Gilham was appointed to the Board of Brickworks in 2003. He has extensive experience in the building products and timber industries. He was previously General Manager of the Building Products Division of Futuris Corporation and Managing Director of Bristle Ltd from 1997 until its acquisition by Brickworks in 2003, and has been involved with various timber companies. He is a member of the Remuneration Committee and the Nomination Committee.

**DEBORAH R. PAGE AM** B.Ec, FCA, FAICD  
**DIRECTOR** since 1 July 2014 (3 years)

Mrs Page was appointed to the Board in July 2014 and is a non executive Director. Mrs Page has extensive financial expertise, arising initially from her time at Touche Ross/KPMG Peat Marwick including as a partner, and subsequently from senior executive roles with the Lend Lease Group, Allen Allen and Hemsley and the Commonwealth Bank. She also has experience as a Director in a number of sectors, including Property, Energy & Renewables, Insurance, Funds Management, and Public Sector bodies. Mrs Page is the Chair of the Audit and Risk Committee, and a member of the Nomination Committee and the Remuneration Committee.

**THE HON. ROBERT J. WEBSTER** MAICD  
**DIRECTOR** since 2001 (16 years)

Mr. Webster was appointed to the Board in 2001 and is a non executive Director. He is Senior Client Partner in Korn Ferry's Sydney office. He is the Lead Independent Director, Chair of the Nomination Committee, a member of the Remuneration Committee and a member of the Audit and Risk Committee.

#### Managing Director

**LINDSAY R. PARTRIDGE AM** BSc, Hons.Ceramic Eng; FAICD; Dip.CD  
**DIRECTOR** since 2000 (17 years), joined the Company in 1985

Mr Partridge graduated as a ceramic engineer from the University of New South Wales, and worked extensively in all facets of the clay products industry in Australia and the United States before joining the Austral Brick Company in 1985. In 2008, Mr Partridge completed the Stanford University Executive Development Program. He held various senior management positions at Austral before being appointed Managing Director of Brickworks in 2000. Since then, Brickworks has grown significantly in terms of size and profitability as its operations have become Australia-wide, with its product range extending beyond bricks to tiles, pavers and masonry and activities expanding into property development.

Mr Partridge has also had extensive industry involvement, and is currently a director of various industry bodies, including the Australian Brick and Blocklaying Training Foundation and the Clay Brick and Paver Institute.

In 2012 he was awarded the Member of the Order of Australia for services to the Building and Construction Industry, particularly in the areas of industry training and career development, and to the community.

The number of Board and Board Committee meetings and the attendance of each director at such meetings is set out in section 9 of this Report.

### **1.2. Roles and Responsibilities of the Board and Management**

The Board is ultimately responsible for all matters relating to the running of the Company, however that role is achieved mainly through governing the Company. It is the role of senior management to manage the Company in accordance with the direction and delegations of the Board, and the responsibility of the Board to oversee the activities of management in carrying out these delegated duties.

Brickworks' Board has the final responsibility for the successful operations of the Company. In general, it is responsible for, and has the authority to determine, all matters relating to the policies, practices, management and operations of the Company. The Board must also ensure that the Company complies with all of its contractual, statutory and any other legal obligations, including the requirements of any regulatory body.

The principal functions and responsibilities of the Board include the following:

- Providing leadership to the Company and its employees;
- Overseeing the development and implementation of appropriate corporate strategies;
- Ensuring corporate accountability to shareholders;
- Overseeing the control and accountability systems within the Company;
- Ensuring robust and effective risk management, compliance and control systems are in place and operating effectively;
- Monitoring the performance and conduct of the Company;
- Monitoring the performance and conduct of senior management, and ensuring adequate succession plans are in place;
- Ensuring the Company continually builds an honest and ethical culture; and
- Approving the Company's remuneration framework.

All matters that are not specifically reserved for the board and are necessary for the daily management of the Company are delegated to senior executives and management, through the Managing Director who manages the Company in accordance with the strategy, plans and delegations approved by the Board.

### **1.3. Appointment of Directors**

The Company undertakes appropriate checks before appointing a director or putting forward to shareholders a candidate it recommends for election as a director and provides security holders with all material information in its possession relevant to a decision on whether to elect or re-elect a director including their independence, term of office served, qualifications and experience.

### **1.4. Terms of Appointment of Directors and Senior Executives**

The Company has a written agreement with each senior executive and managing director setting out the terms of their appointment. Non-executive directors appointed prior to 1 July 2014 are generally long serving directors who were appointed to the Board without written agreements. The Company has a written agreement with Mrs Page setting out the terms of her appointment. The Company will enter into a written agreement with each new director that is appointed to the Board after 1 July 2014 setting out the terms of their appointment.

### **1.5. Company Secretary**

The Company Secretary reports to the Managing Director and is accountable directly to the Board, through the Chair on matters to do with the proper functioning of the Board. The Company Secretary is accountable for advising the Board on corporate governance matters, managing the company secretarial function, attending Board and Board committee meetings and taking minutes and communicating with the ASX.

### **1.6. Diversity Policy**

Brickworks has a diversity policy (a copy of which is on the Company's website) which includes requirements for the Board to set measureable objectives for achieving gender diversity and to assess annually both the objectives and the entity's progress in achieving them. In addition Brickworks has an Equal Employment Opportunity policy. The Company is committed to a policy of equal employment opportunity (EEO) which aims to prevent the existence of discriminatory practices or measures which may hinder equitable selection, progress or access to benefits of all employees.

The Group recognises it has legal and moral obligations not to discriminate on any basis, and is conscious of ensuring that its workforce reflects the diverse nature of the locations it operates in. Over time the company has improved its facilities in a number of its locations to promote opportunities for female operators and employees with physical disabilities. Brickworks is also committed to increasing the number of indigenous employees in the workforce. The company strives to improve shareholder value by ensuring the best candidate for any position is appointed.

Brickworks is a "relevant employer" and reports annually under the Workplace Gender Equality Act. Brickworks has also lodged its 2016-17 Workplace Gender Equality report with the Workplace Gender Equality Agency, which is compliant with the Workplace Gender Equality Act 2012 (Act) and can be viewed in the News and Reports section of the Company's website: [www.brickworks.com.au](http://www.brickworks.com.au). It contains the Group's most recent Gender Equality Indicators.

The Board has established measurable objectives toward gender diversity as follows:

**BOARD MEMBERSHIP:** At the point at which a board vacancy arises, the nomination committee will ensure that the male and female candidates with the best skills and experience as required for the vacant position will be assessed for the role. Brickworks is committed to having the best director in the role, having regard to the skills and experience required. Female non-executive director representation at the date of this report is 17%. Due to the low number and turnover of directors, Brickworks has not set a defined target for female board representation.

**EXECUTIVE GROUP:** At the point at which a position on the Executive Group becomes available, the best internal candidates (male and female) will be assessed, along with (where applicable) the best male and female external candidates for the role (noting that Brickworks has a policy of promoting from within where possible). Brickworks' goal is to have increased female senior executive representation to 25% by the year 2020 with senior executive being defined as the CEO, Key Management Personnel and Other Executives/General Managers. At balance date, female executive management representation was 22.7% (an increase from 19.1% in 2016 and 10.0% in 2015).

Whole of organisation: Overall, women currently comprise 20.3% (2016 18.8%) of Brickworks' total workforce. Brickworks' goal is to increase this representation to 25% by the year 2020. Brickworks has historically found it difficult to attract and retain female employees, as majority of employees are directly or indirectly engaged in traditionally male dominated manufacturing roles. However, there has been significant improvement in increasing the female pool of candidates for vacant management and senior executive positions.

Each year the Board will report on these objectives and progress towards them as part of the Corporate Governance statement.

### **1.7. Evaluating the performance of the Board, Board Committees, Directors and senior executives**

Non-executive Director performance is reviewed by the Chair. If the performance of any non-executive Director is considered unsatisfactory, the matter is referred to the remainder of the Board. The efficiency, effectiveness and operation of the Board is continuously subject to informal monitoring by the Chair and the Board as a whole. A structured Board review incorporating feedback from each director in relation to the effectiveness of the board and committees was undertaken in July 2017 in the form of a director questionnaire. This assessment will be undertaken annually.

In monitoring the performance and conduct of senior management, the Remuneration Committee formally reviews the performance of the Managing Director and senior executive staff at least annually. In addition to the formal evaluation procedures, senior executive performance is continually monitored by the Managing Director on behalf of the Board, and the Managing Director's performance is subject to continuous monitoring by the full Board. During the current year, the performance evaluations referred to above took place in accordance with the process as outlined in section 8.

## **2. STRUCTURE THE BOARD TO ADD VALUE**

### **2.1. Director Independence**

Having regard to the guidance provided by the ASX Principles, the Board considers that Mrs Deborah Page and Messrs Brendan Crotty, David Gilham and Robert Webster are independent. Notwithstanding their length of service on the Board, the Board considers Mr Webster and Mr Gilham to be independent directors. The Board notes that Mr Gilham had not previously been considered independent due to his historic senior executive roles with Bristle Ltd. However as that ceased in 2003, the Board considers that Mr Gilham is free from any business or other relationship which could materially interfere, or give the appearance of interference, with his ability to exercise independent judgement when acting as a director of Brickworks. As at 31 July 2017, Mr Webster will have served on the Board for 16 years however the Board considers that he continues to bring an independent mind and judgement to the Board and has not become too close to management or any non-independent director for his independence to be compromised. Messrs Robert Millner and Michael Millner are not considered by the board to be independent due to their directorial connection with Washington H. Soul Pattinson, a major shareholder in Brickworks (either currently or historically). Michael Millner resigned as a director of Washington H. Soul Pattinson in 2012. Robert Millner remains a director of Washington H. Soul Pattinson.

Accordingly, the majority of directors are independent directors and all Board Committees are chaired by independent directors. The Chairman is a non-executive director. The Chairman has extensive corporate and investment experience and provides leadership to the Board. The process adopted below deals appropriately with areas of conflict.

The board has appointed The Hon. Robert Webster as the Lead Independent Director, to act as Chair of the board in matters in which both Robert and Michael Millner are conflicted. This included all matters to do with the Perpetual litigation, which has now been resolved.

In addition, individual Directors of Brickworks are entitled to seek independent professional advice in relation to their role as a Director, at the cost of Brickworks. Directors are required to advise the Chairman or full Board prior to engaging parties to provide this advice.

### **2.2. Board Experience and Skills Matrix**

In addition to comprising a majority of independent directors, the Board feels that there is an appropriate blend of skills and experience covering all aspects of the Company's operations, particularly the core businesses of building products manufacturing and property development. The membership of the Board is reviewed by the full Board, from time to time, having regard to the ongoing needs of the Group. It is the policy of the Board that its membership should reflect an appropriate balance between executives possessing extensive direct experience and expertise in the core business activities of the Brickworks Group and non-executive members who bring to the Board a broad range of general commercial expertise and experience. The length of service on the Brickworks Board of each director is disclosed in section 1.1 of this Statement.

The following table summarises the skills and experience of the directors serving on the Board at 31 July 2017.

Skills	Relevant Experience	No. of Directors
Leadership and Governance	Senior executive	5
	Directors of listed entities	7
Industry Experience	Building materials sector	5
	Manufacturing sector	3
	Property investment and development (including government and planning)	5
	Investment management	5
	Marketing	3
Strategy	Strategic planning	7
	Corporation M&A transactions	7
Operations	Large capital expenditure projects	7
	Workplace health and safety, environment and social responsibility	5
Finance and Risk	Accounting and reporting, corporate finance	5
	Risk assessment and internal controls	4
People	Influencing organisational culture	6
	Experience with remuneration frameworks, including setting incentives structures	7
	Assessing the performance of executives	6

### 2.3. Nomination Committee

Brickworks' Nomination Committee was established in November 2013. The Honourable Robert Webster is the Chair. At the date of this report all non-executive directors were members of this committee with members excluded from the meeting while their nomination is being considered. It has its own charter outlining the committee's function, composition, authority, responsibilities and reporting. A copy of the charter is available on the Company's website. All members are excluded from the meeting while their nomination for re-election is being considered.

The role of this Committee is to make recommendations to the Board with regard to:

- Determining the necessary and desirable competencies of directors to ensure it comprises Directors with an appropriate mix of experience and expertise.
- Reviewing the process for the selection of non-executive directors
- Appointing directors and considering whether directors should be nominated to stand for re-election
- Board succession plans
- Developing and implementing a process for evaluation of the performance of the Board and Directors
- Considering induction and continuing professional development programs for directors.

Newly appointed Directors receive a tailored orientation program that aims to provide that Director with a comprehensive understanding of the Company. New Directors are provided with information comprising governance policies, business information, Board and Committee charters and key policies. The Board also undertakes regular site visits and provides professional development opportunities on matters relating to the Company.

## 3. PROMOTE ETHICAL AND RESPONSIBLE DECISION-MAKING

Brickworks has an established code of conduct under which all Directors, senior management and employees are expected to operate. This code is centred on having the Company and its employees achieve the highest integrity in all its business dealings at all levels of the organisation. The code covers a number of areas, including ethical standards, conflicts of interest, excellence in performance, confidentiality, trading in the Company's securities, continuous disclosure and equal opportunity, anti-discrimination and harassment. All Directors, senior management and employees of Brickworks and its subsidiaries are expected to abide by the code of conduct.

The Company is committed to generating an environment whereby its employees are encouraged to advise senior management of breaches of its code of conduct. To assist employees in this process, Brickworks has established a confidential whistleblower service utilising external consultants to facilitate the reporting and investigating of breaches of the code of conduct.

The Company also has a share trading policy. A summary of the main principles of the Brickworks share trading policy are outlined below:

- Brickworks' Directors and employees are prohibited from trading in shares of Brickworks when in possession of price sensitive information about Brickworks Limited or its business and this information is not available to the public.
- Directors and employees are also prohibited from encouraging another person (for example, family members or business colleagues) to deal in Brickworks Shares when they have "inside information".

- Brickworks has established share trading windows during which employees or Directors of the Company may trade shares in the Company. These windows are each for a period of six (6) weeks duration commencing at:
  - the announcement of the Yearly result to the ASX;
  - the AGM date;
  - the announcement of the half yearly result to the ASX; and
  - the lodgement of a prospectus.
- Directors and employees are restricted from trading in Brickworks shares during these trading windows if they are in possession of price sensitive information.
- There is an absolute prohibition on the trading of shares between the end of a financial period and the release of results to the ASX relating to that period.
- In exceptional circumstances, senior management and Directors may trade outside these windows, providing they obtain written approval from the Managing Director or Chair respectively prior to trading. Exceptional circumstances can include severe financial hardship and the requirement to comply with a legal or regulatory requirement.
- This restriction does not apply to a limited number of scenarios, including where there is no change in the beneficial interest; where the trading is done through a fund or scheme where investment decisions are at the discretion of a third party; participation in an offer made to all or most Brickworks shareholders (such as a rights issue or dividend reinvestment plan); or monthly share purchases made by the Brickworks Employee Share Plans.
- Brickworks shares are not permitted to be used to secure any type of financial product, such as margin loans or similar. Options, collars and/or other financial derivatives should not be used in respect of any Brickworks shares.

## **4. SAFEGUARD INTEGRITY IN FINANCIAL REPORTING**

### **4.1. Audit and Risk Committee**

Brickworks has an established Audit and Risk Committee, which has its own charter outlining the committee's function, composition, authority, responsibilities and reporting. A copy of the charter is available on the Brickworks website.

Current members of the Committee are Mrs Deborah Page (Chair since July 2014), Mr Brendan Crotty and The Hon. Robert Webster. Details of these Directors' qualifications and experience are available in the Directors' Report. The other Board members have a right of attendance, however the Managing Director, along with the Chief Financial Officer, the Company Secretary, and other senior managers may attend by invitation only, to discuss issues on audit and internal control matters.

The Committee also requests that representatives from the external auditors attend the Committee meetings to report on the results of their work in the period under review. Representatives from both external and internal auditors have direct access to the Committee if required.

Audit and Risk Committee attendance details are included in section 9.

The function of the Audit and Risk Committee is to assist the Board in fulfilling its statutory and fiduciary responsibilities relating to:

- The external reporting of financial information, including the selection and application of accounting policies;
- The independence and effectiveness of the external auditors;
- The effectiveness of internal control processes and management information systems;
- Compliance with the Corporations Act, ASX Listing Rules and any other statutory requirements applicable to Brickworks; and
- The application and adequacy of risk management systems within Brickworks.

### **4.2. CEO/CFO Declaration**

It is a requirement of the Board that the Managing Director and Chief Financial Officer sign off to the Board, via the Audit and Risk Committee, on the content of the financial statements, and that in their opinion these statements have been properly maintained, comply with appropriate accounting standards and represent a true and fair view of the Company's performance and operations and the financial position of the Company and that opinion has formed on the basis of a sound system of risk management and internal control which is operating effectively.

### **4.3. External Auditor Attendance at Annual General Meeting**

The Company requires the partner or delegate responsible for signing the audit report to be at the annual general meeting of the Company to answer any questions raised in relation to the audit and the auditor's report. Attendees at that meeting are given an opportunity to ask questions of the auditors. The audit partner from Ernst & Young attended the 2016 Annual General Meeting.

## **5. MAKE TIMELY AND BALANCED DISCLOSURE**

### **5.1. Continuous Disclosure Policy**

The Company has a written policy dealing with its requirements under the Continuous Disclosure rules contained in ASX listing rule 3.1. Generally, this policy states that all employees have a responsibility to advise senior management of any information about Brickworks or its subsidiaries which could be considered price sensitive for Brickworks shares. Senior management will then consider, in consultation with the Directors, which information will be released to the ASX and what form this release will take. Senior

Management is accountable to the Board for compliance with these policies. A copy of the Company's continuous disclosure policy is on the Company's website.

## 6. RESPECT THE RIGHTS OF SHAREHOLDERS

Brickworks is committed to keeping its shareholders and other interested parties informed about the Company's activities, ensuring shareholders have access to up-to-date information about the Company and that they are encouraged to participate in shareholder meetings of the Company. The investor section of the Company's website provides ready access to notices of meeting, annual reports, company announcements made to the ASX and webcasts of the company's annual general meetings.

The Company provides advanced notice to all major shareholders and analysts of periodic briefings. Such briefings can be attended in person or via telephone or conference facilities. The Company's investor relations program is designed to promote understanding amongst institutional and retail shareholders and other stakeholders, of the Company's businesses, governance framework, financial and operational performance, and outlook. This is also undertaken via comments and questions received at investment briefings and question and answer sessions at annual general meetings.

Shareholders are also able to make enquiries of the Company via phone, fax, email or post, details of which can be found on the Brickworks website. Time is specifically allocated at general meetings for questions to be put to the Board of Directors.

Shareholders are able to obtain and send shareholder communication electronically to the Company and its share registry electronically via email.

## 7. RECOGNISE AND MANAGE RISK

### 7.1. Audit and Risk Committee

The Group is committed to the management of risks throughout its operations to protect its employees, shareholders, the environment, our assets, earnings, markets and reputation. Board responsibility for oversight of risk management resides with the Audit and Risk Committee.

A risk management framework has been implemented, consistent with each element of the Australian Risk Management Standard AS/NZS31000:2009. Key Elements of the comprehensive framework cover Business Process, Financial, Human Resources, Information, Property, Environmental, Health and Safety and Insurable Risks.

The Company's Risk register is reviewed by the Audit and Risk Committee and the Board annually. It was last reviewed by the full Board in February 2017.

This risk initiative complements previous actions including the specific risk management policies contained within the Brickworks group policy manual, which are aimed at assisting the Board in the management of risk and legal matters. Certain risk management techniques, including foreign currency and interest rate hedging, may only be undertaken within limits approved by the full Board of Directors.

It is a requirement of the Board that the Managing Director and Chief Financial Officer sign off to the Board, via the Audit and Risk Committee, on the risk management and internal compliance and control systems implemented by the Board, and that these compliance and control systems are operating efficiently and effectively in all material respects. Deployment of the risk management framework further facilitates the sign off process.

### 7.2. Internal Audit Function

The internal audit function is undertaken by Mazars Risk and Assurance Pty Ltd Chartered Accountants. The internal audit team reports directly to the Chair of the Audit and Risk Committee except in respect of operational matters which are delegated to the Chief Financial Officer and members have the opportunity to meet with Mazars Risk and Assurance Pty Ltd Chartered Accountants without the presence of other management. The internal audit team prepares an annual internal audit plan, whereby it reviews processes and internal controls that management have put in place.

### 7.3. Economic, Environmental and Sustainability Risks

The Board of Brickworks has adopted a Risk Management framework that identifies both Risk Tolerance and Risk Appetite for the group and then considers how each identified risk is placed within that framework.

That process considers the likelihood of an event occurring, followed by the impact of each event. The impact is considered on human level which measures the likely consequence on people, whether they be employees or the public. Secondly, the financial consequence is considered.

The final step in the process is to consider the controls and processes in place, to continually mitigate each risk.

The following is a discussion of the risks that may impact the business.

#### (a) Building Products

The achievement of business objectives in the Building Products Group may be impacted by the following significant risks:

Risk	Mitigation
Supply Risk – sources and cost of gas supply	The Group continues to review upstream investment options, and alternative sources of gas while leveraging supplier relationships to ensure long term supply.
Serious Safety Incidents	The Group has a strong safety culture and a well developed WHS system (refer further “ <b>Safety</b> ”).
Environmental incident	The Group has a comprehensive environmental compliance system and strong commitment to environmental protection (refer further “ <b>Environment</b> ”).

Alternative products	The Group has a strong focus on research and development, monitors market trends and has strategies to diversify its range of building products and its marketing approach.
Shift in housing trend	The movement away from detached housing threatens the Group's traditional market. The Group has strategies to diversify its range of building products and its marketing approach.
New competitor	Whilst barriers to entry are significant the Group monitors both domestic manufacturing and import competitors and has adopted a customer relationship and quality model, supported by investment in research and development.
Plant performance	All plants are subject to regular preventative maintenance programs and appropriately qualified staff are employed to monitor and oversee production activities. Plant performance is measured and monitored daily, weekly and monthly.
Production capacity	The Group manages production capacity by restarting, building and mothballing plant to adapt to cyclical market conditions. In the 2017 financial year, the Group commenced the recommissioning of the Cardup plant and announced the planned closure of the Malaga plant in WA.
Business Interruption	There are multiple facilities throughout Australia that can transport products between locations as and when required. The major facilities have rolling risk reviews and reporting by outside parties. The business also maintains significant insurance policies to manage the physical loss of assets and any loss of income due in an insurable interruption.
Asbestos Risk	There has been a comprehensive review of all locations for the presence of asbestos. Building cladding is regularly removed and replaced with non-asbestos based materials. Where any asbestos is found, either within a plant or during rehabilitation, it is immediately quarantined and removed by qualified reputable contractors, using the most diligent safety standards.
Market Risk – deteriorating market conditions	The Group is investing in geographic and product diversification, cost control and continuous improvement of business. Restructuring initiatives have been undertaken in WA to address the challenging market conditions including a pro-active approach to right-sizing our operations to match demand.

#### (b) Land and Development

The achievement of business objectives in Land and Development may be impacted by the following significant risks:

Risk	Mitigation
Market Risk	The industrial property cycle may deteriorate, resulting in softening capitalisation rates and lack of growth. The Group manages the risk by monitoring the key economic drivers, employing property professionals who understand the property cycle and undertaking development in joint venture with Goodman Group. The Group regularly conducts hold/sell assessments.
Serious Safety Incidents	The Group has a strong safety culture and a well developed WHS system (refer further “ <i>Safety</i> ”).
Property Trust Financing	The joint property trusts maintain facilities with multiple lenders with various tenors up to 7 years. In addition, gearing is maintained at prudent levels through the property cycles.
Rezoning Risk	The Group takes a long term, patient approach to achieving the highest and best use for each property. The rezoning process for a property usually commences prior to finalisation of its existing use.

#### (c) Investment

The achievement of business objectives in Investment activities may be impacted by the following significant risks:

Risk	Mitigation
Market Risk	The Group's investment in WHSP is subject to market movements and the underlying performance of WHSP. The WHSP investment is diversified across industries other than those in which the balance of Brickworks specialises, which provides a stable stream of dividends over the long term. The WHSP group may have significant exposure to the Coal and Telecommunications Markets.

#### (d) Group

The achievement of business objectives in the Group activities may be impacted by the following significant risks:

Risk	Mitigation
Financing Risk	The Group maintains conservative gearing levels below 20% in recognition of its cyclical nature. Senior debt facilities are maintained with financial lenders with whom an open and transparent relationship is maintained. Facilities are maintained over various tenors ranging from 2 to 5 years, ensuring that a maximum of \$200 million will expire at any one point in time.
Cyber Security Risk	The Group has assessed its main cyber security threat as phishing to obtain sensitive company information or a virus attack which compromises the system. Investment in technology has increased and risk controls include the use of a VPN and antivirus software to safeguard against incoming viruses from personal computers. Preventative measures include regular system penetration tests and employee training. New leading edge end-point protection software and firewall protection has been introduced. A disaster recovery plan is in place across the organisation.

## 8. REMUNERATE FAIRLY AND RESPONSIBLY

### 8.1. Remuneration Committee

Brickworks has a Remuneration Committee with a membership of all non-executive Directors. The Committee operates under the delegated authority of the Board, and has its own charter, a copy of which is available on the Brickworks website. Mr Brendan Crotty is Chair of the Remuneration Committee.

The main functions of the Remuneration Committee are to assist the Board in fulfilling its responsibilities relating to:

- Ensuring remuneration policies and practices are consistent with Brickworks' strategic goals and human resources objectives and which enable Brickworks to attract and retain executives and Directors who will create value for shareholders;
- Equitably, consistently and responsibly rewarding executives having regard to the performance of Brickworks, the performance of the executive and the general pay environment; and
- Ensuring executive succession planning is adequate and appropriate.
- Remuneration Committee attendance details are included in the Directors' report.

The Remuneration Report contains detailed information relating to Director and Senior Executive remuneration, including the policy and practices for determining remuneration, the use of fixed and variable remuneration, and the relationship between executive remuneration and Company performance.

This Committee is authorised by the Board to obtain external professional advice, and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary.

#### Non-executive Directors

The Remuneration Committee is responsible for recommending to the Board fees applicable to Non-executive Directors. In accordance with a resolution of shareholders at the 2014 Annual General Meeting, the maximum aggregate amount that is permitted to be paid to non-executive Directors under the Brickworks constitution is \$1.0 million per annum.

Contributions to the retirement allowance plan for non-executive Directors were discontinued on 30 June 2003. Under legacy arrangements, non-executive Directors appointed prior to 30 June 2003 were entitled to receive benefits upon their retirement from office. These benefits were frozen with effect from 30 June 2003, and are not indexed. Since 30 June 2003 no new Directors have been entitled to join this plan. There are no other schemes for the payment of retirement benefits for non-executive Directors, other than statutory superannuation.

Non-executive Directors may also be reimbursed for their expenses properly incurred as a Director, or in the course of their duties. The non-executive Directors do not participate in the Brickworks Short Term Incentive (STI) Scheme or Long Term Incentive (LTI) arrangements.

#### Executives

Brickworks' remuneration policies are designed to drive a performance culture and to ensure that the way in which employees are recognised and rewarded through remuneration is in the best interests of the shareholders, the Company and the individual. The remuneration policies achieve this in the following ways:

- by ensuring executive remuneration is linked to both individual performance and Company performance;
- by providing remuneration that is market competitive to ensure Brickworks has the ability to retain and motivate strong performing employees and attract high calibre prospective employees; and
- by undertaking an annual evaluation process on the performance of all executives, the results of which contribute to the determination of any salary adjustment an individual executive may receive.

All senior executives undergo a performance and development appraisal each year in accordance with the process set out below:

- At the beginning of each financial year, each senior executive is given a set of key performance criteria against which they will be measured. These criteria include both financial and non-financial performance measures;
- At the end of each financial year, all senior executives complete a self-assessment questionnaire prior to meeting with their manager to discuss their performance over the previous year;
- A performance appraisal meeting is then undertaken for each senior executive.

#### Short Term Incentives (STI)

Brickworks' STI has been designed to focus executives on the necessity to achieve a range of agreed targets for their respective businesses. The STI is structured around the achievement of annual performance criteria based on each executive's capacity to influence targeted outcomes. Brickworks' STI is based on the profitability of operating divisions and the overall Group, as well as the level of achievement of key strategic objectives that will underpin performance in the future. This incentive scheme covers the Managing Director, Chief Financial Officer, General Managers, and various other senior managers within the Group.

The table below outlines the STI Plan:

<b>Purpose</b>	The STI is an annual bonus designed to reward executives for meeting or exceeding financial and non financial objectives over a one year period.
<b>Timing</b>	For the MD and CFO the STI is awarded in cash up to a maximum of 72% of total fixed remuneration (including base salary, superannuation and car allowance) with 33.33% of STI awarded deferred for two years.

For all other executives the STI is awarded in cash up to a maximum of 50% of total fixed remuneration (including base salary, superannuation and car allowance). Any excess STI earned above the maximum percentage of total fixed remuneration will not be paid as a cash bonus but will be added to the long term incentive share allocation for that year with deferral over 5 years.

## Target Opportunities

The MD and CFO have a target STI opportunity of 60% of total fixed remuneration while other executives have a target STI opportunity of between 12.5% and 50% of base salary. STI as a proportion of base salary for an employee increases as that employee gains greater responsibility and has greater capacity to influence the performance of the business as a whole.

## Performance measures

Each year the Remuneration Committee sets KPI's for the MD and CFO for the financial year, with a view to directly aligning the individuals' annual incentive opportunity to execution of the Group's business strategy. The MD determines the KPI's which are aligned to the delivery of the strategy and performance of the business. Payments under the STI are determined by performance against KPIs.

STI performance measures and weightings vary by executive depending on individual accountabilities for the financial year 2017. The metrics and their rationale for selection are as follows:

### Rationale for selection

#### Financial measures

Divisional profit compared with the base target

Focus senior executive attention on results and performance for segments for which they have direct responsibility.

Cash generation

Managing cash to ensure cash and working capital is available whenever and wherever required by the business.

#### Non-financial measures

Quality of earnings

This measure considers the quality of the earnings result including goodwill impairments and windfall gains.

Strategic

Focuses senior executives on strategic initiatives such as new product development, network strategy, rationalisation of surplus assets, restructuring and rationalisation of operations to deliver growth and improve business performance.

Operational

Key operational deliverables align management to the strategic initiatives of the Group with a focus on long-term sustainability of earnings such as production and returns on net tangible assets, efficiencies, operational and manufacturing improvements.

Safety, Health and Environment

Rewards employees for demonstrated leadership in enhancing workplace safety and taking a sustainable approach to operations through scientific innovation.

People

Effective leadership, talent development, retention and succession planning are critical to the success of the business and underpin financial performance.

## Weighting of performance measures

### MD and CFO

The potential STI for the MD and CFO at target is based on 60% of total fixed remuneration (including base salary car allowance and superannuation) the payout schedule against the financial measures is outlined below:

#### Percentage of financial component of STI Award payable for the MD and CFO

Circumstance	Target	STI Award
Outperformance	110% of profit target	120% of potential STI
Meeting performance	Between 100% and 110% of profit target	Pro rata award on a straight line basis between 100% and 120% of potential STI
Sub-optimal performance	Between 80% and 100% of profit target	Pro rata award on a straight line basis between 60% and 100% of potential STI
Underperformance	Below 80% of profit target	No STI Award

The total STI Award calculated as set above is then considered against each performance measure component as follows:

- 37.5% of any STI Award is paid to reflect profit performance
- 37.5% of any STI Award is paid as set out below:

100% of budgeted operating cash flow	100% of 37.5%
Between 80% and 100% of budgeted operating cash flow	Pro rata award on a straight line basis between 60% and 100% of 37.5%
Below 80% of budgeted operating cash flow	100% of 37.5% forfeited

- The remaining 25% of any STI Award is payable on each non financial measure reached

#### **Other Executives**

The STI for all other executives is weighted 75% for financial measures and 25% for non- financial measures.

#### **Percentage of financial component payable for other executive KMP (ie. 75% of total STI)**

##### % of profit target achieved

Between base target and upper target	Straight line between 50% and 100%
> upper target	Pro rata equal to the percentage over budget to a maximum of 50% of total fixed remuneration

##### % of cash target achieved

Between base target and upper target	Straight line between 50% and 100%
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There is no upside available against cash and non-financial measures.

#### **Performance assessment**

##### **MD and CFO**

At the end of the financial year the Remuneration Committee assesses actual performance against their respective KPIs and recommends the STI quantum to be paid to the individuals for approval by the Board.

These assessment methods have been chosen as they provide the Remuneration Committee with an objective assessment of each individual's performance.

##### **Other Executives**

At the end of the financial year the MD assesses the actual performance against their respective KPIs and determines the STI quantum to be paid to the senior executives. The MD provides these assessments to the Remuneration Committee annually.

The Remuneration Committee and the MD have the discretion to take into account any significant non-cash items, for example acquisitions and divestments and one-off events/abnormal/non-recurring items in determining whether the financial KPIs have been achieved, wherever and whenever this is considered appropriate for linking remuneration reward to Company performance.

#### **Other features**

##### **Clawback**

There are currently no clawback clauses for STI payments.

##### **Termination**

Should the employment of either the MD or CFO be terminated other than for cause all outstanding STI payments the subject of deferral will be paid as if their employment had continued.

#### **Long Term Incentives (LTI)**

The objectives of the Company's LTI plan are to:

- align the interests of executives with shareholder interests;
- balance short-term with long-term Company focus; and
- retain high calibre executives by providing an attractive equity based incentive.

The table below outlines the LTI.

##### **What is the LTI?**

The Group operates an LTI Plan through the Brickworks Deferred Employee Share Plan in which employees receive Brickworks Limited shares. No consideration is payable by participants for shares under the terms of the plan.

##### **Scope**

The LTI is a broad based employee share plan with 588 employees participating as at 31 July 2017 via 1,504,460 shares on allocation of which 50.98% remain unvested (and 49.02% vested). In addition 67,960 shares in the plan were forfeited during the year to 31 July 2017.

##### **Purpose**

The primary purpose of the LTI is the retention of the Company's senior executive team. For example, acquisition of the necessary knowledge to successfully manage the manufacturing processes for building materials usually requires an immersion period of at least 5 years and in some sectors, such as brick

production, as much as 10 years. Similarly, an executive who knows the Company's clients extremely well and has a long history of successful negotiations with them will also be difficult to replace. Not surprisingly, Brickworks seeks to retain as many of its experienced executives as practically possible.

## Opportunity

For the 2017 financial year, the value of shares granted was dependent upon the employee's position within the Group and their base salary. For the MD and all other executives, this STI entitlement was up to 50% of base salary for all executives. For the MD and CFO this STI entitlement will increase to 60% for allocations made after FY2017.

However, the value of LTI shares may exceed these percentages as a consequence of STI cash payments being capped at 50% of fixed remuneration for all executives (and at 60% of fixed remuneration for the MD and CFO for allocations after FY2017). Outperformance against the STI measures are recognised by the grant of additional LTI shares.

## Post-allocation performance measures for shares allocated in FY 2017-absolute TSR

For allocations approved and made in 2015 and 2016, 50% of shares allocated to the MD and CFO will be assessed for vesting against an annual TSR target of 7.0% (before tax) (TSR Shares). A TSR based vesting test will not apply to any allocation made or agreed to be made before 31 July 2015 and not yet vested.

This is an absolute measure. The vesting schedule is:

Circumstances	Absolute before tax TSR Target over the performance period	Level of Vesting
Outperformance	7% or greater	100%
Meeting performance	6% to 7%	Pro rata vesting on a straight line basis between 50% and 100%
Sub-Optimal performance	6%	50% vesting
Underperformance	Less than 6%	No vesting

The assessment of TSR Shares against the absolute TSR target is undertaken progressively for 20% of the TSR Shares on 31 July for each of the 5 years following the allocation date. 50% of the shares allocated to the MD and the CFO in 2015 and 2016 will continue to vest progressively at 20% per year based on tenure.

The share price used at commencement of each tranche for assessing the TSR performance of Brickworks shares is the Volume Weighted Average Price (VWAP) for the 90 days prior to the allocation of TSR Shares. The actual share price used to compare to the TSR target share price is the 90 day VWAP prior to 31 July, in the year of testing.

In any one year up to five TSR Share tranches allocated will be tested. The absolute TSR performance target for each allocation in that year is the average of 5 Brickworks share prices calculated from 5 different commencement VWAPs on 5 different years (i.e. it will include the average of a Brickworks one year TSR, a two year TSR, a three year TSR, a four year TSR and a five year TSR).

To ensure a long term focus is maintained by the MD and CFO, to the extent that any tranche does not vest in one year it will be deferred and form part of the shares that are eligible for vesting in the following years. In other words, underperformance in one year can be made up by over performance in the following years, provided that underperformance may only be made up by outperformance by the end of the 6th year from the date of first allocation.

For example, if an absolute TSR of 8.0% or more is achieved, there will be an incremental vesting of, of each prior year's entitlement, if any of these allocations did not vest. To ensure long term focus is maintained, by the MD and CFO this enables underperformance in previous years to be made up by over performance in this and the following years.

The cumulative vesting can reach a level that will be equivalent to but not more than the total number of shares originally allocated.

Aligned with shareholders' interests, for tranches of shares that are being tested for vesting in any particular year, an absolute TSR of at least 6.0% must be achieved for 50% of TSR Shares to vest.

In addition, the absolute TSR performance target for each allocation in any year is the average of 5 Brickworks share prices calculated from 5 different commencement VWAPs on 5 different years (i.e. it will include the average of a Brickworks one year TSR, a two year TSR, a three year TSR, a four year TSR and a five year TSR). The purpose of this is to average the share price calculation over a particular cycle to measure performance over a long period and smooth volatility to ensure a long term focus on the business by the MD and CFO.

## Other features

### Clawback

There are currently no clawback clauses for LTI payments.

### Change of Control

If a change of control event occurs in relation to Brickworks Limited then any shares held by the employee share plan trust on behalf of a participant will vest immediately upon the announcement to ASX of a change of control event.

### Treatment of Dividends

The employee receives the voting rights and any future dividends immediately upon the granting of shares. This reflects the relatively long term nature of the 5 year performance period and that the primary purpose of the LTI is one of retention. Executive's entitlements to dividends attributable to the unvested performance shares reflects the reality that if there is no dividend entitlement, the number of performance shares that would need to be granted to achieve the same retention impact, is likely to be approximately 10% to 15% greater than current allocations.

### Sources of Shares

The Board has the discretion to either purchase shares on-market or to issue new shares for participants. During the year shares granted to the MD through the LTI were purchased on market. Shares granted to employees other than the MD were issued as new shares.

### Derivatives

Under the Company's Share Trading Policy Brickworks shares are not permitted to be used to secure any type of financial product such as margin loans or similar. Options, collars and/or other financial derivatives must not be used in respect of any Brickworks shares.

The Brickworks' Securities Trading Policy states that options, collars and/or other financial derivatives should not be used by employees in respect of any Brickworks shares which would include any shares held under the Brickworks Deferred Employee Share Plan.

Further information relating to long term incentive plan is set out in the Company's Remuneration Report.

## 9. BOARD AND COMMITTEE MEETINGS

The number of Board Meetings, Audit and risk Management Committee Meetings, Remuneration and Nomination Committee Meetings held during the year ended 31 July 2017 and each member's attendance is set out in the following table. All directors were eligible to attend all director and committee meetings held.

	<b>Directors' Meeting</b>	<b>Audit &amp; Risk Committee</b>	<b>Remuneration Committee</b>	<b>Nomination Committee</b>	<b>Independent Board Committee</b>
Number of Meetings held:	10	3	6	1	4
Number attended:					
R D Millner	10	N/A	6	1	N/A
M J Millner	10	N/A	6	1	N/A
L R Partridge	10	N/A	N/A	N/A	4
B P Crotty	9	3	6	1	4
D N Gillham	10	N/A	6	1	4
D R Page	9	3	6	1	3
R J Webster	7	3	5	0	3