

# REMUNERATION REPORT

The remuneration report has been audited.

## Remuneration committee

Brickworks Remuneration Committee operates under the delegated authority of Brickworks' Board of Directors. A summary of the Remuneration Committee charter is included on the Brickworks website ([www.brickworks.com.au](http://www.brickworks.com.au)). All non-executive Directors of Brickworks are members 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.

Attendance details of the Remuneration committee are included in the Directors' report.

The 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

Remuneration of non-executive Directors is determined by the full Board after consideration of Company performance and market rates for Directors' remuneration. Non-executive Director fees are fixed each year, and are not subject to performance based incentives. Brickworks' non-executive Directors are not employed under an employment contract.

The maximum aggregate level of fees which may be paid to non-executive Directors is required to be approved by shareholders in a general meeting. This figure is currently \$800,000, and was approved by shareholders at the Annual General Meeting on 31 October 2003. It is not proposed to vary this amount at the 2009 Annual General Meeting.

For the year ended 31 July 2009, Brickworks paid non-executive Directors base fees of \$80,000 per annum, with the chairman of the Board receiving \$160,000 per annum, and the chairman of the audit committee receiving an additional \$10,000 per annum. All Directors are entitled to receive superannuation contributions at the statutory rate (9%) on these amounts. The total aggregate fees paid to non-executive Directors during the year was within the maximum approved by shareholders.

Brickworks constitution requires that Directors must own a minimum of 500 shares in the Company within two months of their appointment. All Directors complied with this requirement during the year.

## Executive Directors and executives

### Board policy for determining remuneration

Board policy for determining the nature and amount of remuneration of the executive Director and senior managers (the executives) is set by the Remuneration Committee. This policy is applied consistently across all divisions within the Group. Brickworks' remuneration policy is to ensure that an executive's remuneration reflects their duties and responsibilities, as well as ensuring the Company is able to attract and retain key talent.

The Board of Brickworks recognises that the Group's performance is tied to its ability to attract, retain and develop highly skilled and motivated executives. Whilst remuneration is a key factor in achieving this, the Board recognises there are other factors that influence this ability, including the culture and reputation of the group and its employees, the general human resources policies, and professional development opportunities.

Executive remuneration is comprised of both fixed and variable remuneration components. The structure of the remuneration is designed to provide an appropriate balance between these components.

Fixed remuneration is made up of base salary, superannuation and other benefits (where taken). Fixed remuneration is approved by the Remuneration Committee based on data sourced from external sources, including independent salary survey providers.

Variable remuneration is tied to the performance of both the individual and the Company. Any such remuneration earned is available as Brickworks shares purchased through the Brickworks Deferred Employee Share Plan or as cash, at the discretion of the employee.

### Performance based remuneration

Brickworks Incentive Scheme has been designed to focus executives on the necessity to achieve a range of planned targets for their respective businesses. The variable remuneration program is structured around the achievement of annual performance criteria and is payable following recommendation by the Managing Director and approval by the Remuneration Committee. Funding for the Incentive Scheme accrues based on divisional and group earnings.

Variable remuneration available as a proportion of total 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. The proportion of remuneration related to performance for the Managing Director and Chief Financial Officer is at the discretion of the Remuneration Committee. For the other specified executives and senior managers covered by the Incentive Scheme, the potential variable component is up to 37.5% of base salary, adjusted up or down for performance compared against prior years. Total variable remuneration payments for the 2009 financial year were down on the prior year in line with divisional trading results, and neither the Managing Director nor Chief Financial Officer received any variable remuneration for the 2009 year, whilst for the 2008 financial year the variable remuneration exceeded the fixed component for both these individuals.

This scheme covers the Managing Director, Chief Financial Officer, General Managers, and various other senior managers within the group.

Seventy percent of variable remuneration is directly tied to achievement of divisional profit results against both prior year and budgeted performance. The Board considers this measure highly appropriate as it is directly linked to the Company's ability to generate profit and create value for shareholders. This is also appropriate from an executive's perspective as the executive is assessed against areas of direct responsibility and influence. Comparison of divisional profit is made against both prior year results and Board approved budgets for the current year. This criteria takes into account the aim of continual improvement in shareholders returns, whilst at the same time recognising that there are a number of external factors (such as the cyclical nature of the Australian Building industry) that are outside the control of the executive. Comparison against properly determined and approved budgets that take into account these external factors is aimed at rewarding executives for strong performance in a weaker environment, which assists in reducing the impact of any negative factors on the business as a whole.

The remaining thirty percent of variable remuneration is not directly tied to profit performance. The Board considers that there are a number of other areas of business performance that are critical to the success of the Company yet may not be reflected directly in divisional profits in the current year. These are areas of wider corporate responsibility that, if not achieved or improved, have the capacity to damage shareholder value, such as environmental compliance and performance, and occupational health and safety performance. Additionally, an executive's ability to train, develop and motivate staff, to maintain positive community relations, and to develop the industry we rely on, all have a major impact on the future profitability of the Company. These non-profit factors are assessed against internal targets set in advance and aimed at continual improvement in these areas.

#### **Brickworks Employee Share Plan**

Brickworks Employee Share Plan operates as part of the remuneration structure of the group. All employees of Brickworks with a minimum 3 months service are eligible to join the plan, whereby the employee may salary sacrifice an amount toward the purchase of Brickworks Ordinary shares. The plans are aimed at encouraging employees to share in ownership of their Company, and help to align the interests of all employees with that of the shareholders. Following the changes to the taxing of Employee Share Plans announced in the May 2009 Federal Budget, monthly contributions to the Brickworks Employee Share Plan were suspended. As legislative changes have become more certain, Brickworks is considering the reinstatement of the salary sacrifice portions of the Employee Share Plans.

In addition to the optional salary sacrifice portion of the plans, Brickworks has introduced an employee Alignment and Retention Scheme, whereby salaried staff are entitled to a value of shares each year through the Deferred Employee Share Plan. The value of shares granted is dependent upon the employee's position within the group and their base salary, with staff being entitled to shares with a value up to 37.5% of base salary. Under the terms of the scheme, the employee will receive the voting rights and entitlement to any future dividends immediately upon purchase, however they are unable to access the shares to trade unless they satisfy vesting criteria. These shares will become available to the employee at 20% per annum at the end of each of the following five years, providing they continue to be employed by Brickworks. If the employee terminates their employment, they forfeit their entitlement to the unvested shares, except in limited circumstances, such as medical reasons or bona fide retirement.

An employee's right to transact the shares is governed by the trust deed for the Brickworks Employee Share Plans and the Company's policy regarding trading windows.

Brickworks Employee Share Plan is seen as both an employee retention mechanism, due to the service criteria attaching to the vesting of the shares, and a method of aligning employee interests with those of external shareholders. At 31 July 2009, there were 474 employees participating in the share plans, holding 904,945 shares (0.68% of issued capital).

In accordance with ASX Listing Rule 10.14, the Company contribution to the Brickworks Employee Share Plan is unavailable to Directors of Brickworks.

During the year, all monthly share purchases through the Brickworks Employee Share Plans were performed on market, as were the bonus shares granted to the Managing Director. All other bonus shares granted through the Employee Share Plans were issued on 27 October 2008.

#### **Options**

No options over unissued shares or interests in Brickworks Limited or a controlled entity were granted during or since the end of the financial year and there were no options outstanding at the date of this report. No shares or interests have been issued during or since the end of the year as a result of the exercise of any option over unissued shares or interests in Brickworks or any controlled entity.

## Superannuation

The Company contributes to a number of superannuation funds for its employees. Company superannuation contributions are as required under the relevant superannuation guarantee legislation, generally being 9% of salary. Employees are entitled to salary sacrifice additional amounts as superannuation contributions, provided any contributions comply with superannuation guarantee requirements.

Brickworks does not have any, or any interest in, defined benefit superannuation funds. All funds administered on behalf of the Company are accumulation funds, and as a result there is no ongoing liability to Brickworks for unfunded superannuation plans.

## Company performance, shareholder wealth and remuneration

This remuneration policy has been tailored to help align Director and executive interests with those of shareholders. The main method of this is through the use of the variable remuneration component and the use of the Brickworks Deferred Employee Share Plan. The Company believes this policy has been effective in increasing shareholder wealth over the past five years, and will continue to be effective in creating additional shareholder value.

The following table shows a number of relevant measures of Company performance over the past five years. A detailed discussion on the current year results is included in the review of operations and is not duplicated here, however an analysis of the figures below demonstrates continued dividend growth, and consistent or improving revenues and normalised profits in a difficult cyclical environment. The Board is of the opinion that these results can be attributed in part to the previously described remuneration policies and is satisfied that this continued improvement has led to increased shareholder wealth over the past five years.

	2005 <sup>(1)</sup>	2006	2007	2008	2009
Total revenue (millions)	\$565.3	\$532.1	\$558.9	\$553.7	\$593.5
Net profit before non-regular items after tax (millions)	\$84.5	\$101.9	\$102.2	\$108.2	\$113.7
Net profit after tax (millions)	\$142.9	\$102.2	\$107.5	\$101.5	\$305.2
Share price at year end	\$10.51	\$11.99	\$13.50	\$11.90	\$12.85
Dividends paid – ordinary shares (cents)	31.0	36.0	38.0	39.0	39.0

Notes: (1) 13 months 1 July 2004 to 31 July 2005.

## Details of Key Management Personnel

### Directors

The following persons were directors of Brickworks Ltd during the financial year:

Mr R. Millner	Non-executive Chairman
Mr M. Millner	Non-executive Deputy Chairman
Mr L. Partridge	Executive director (Managing Director)
Mr B. Crotty	Non-executive director
Mr D. Gilham	Non-executive director
The Hon. R. Webster	Non-executive director
Mr A. Bentley	Non-executive director (retired 15 November 2008)
Mr T. Fairfax	Non-executive director (retired 25 September 2008)

### Executives

The following persons had authority and responsibility for planning, directing and controlling the activities of the Group during the financial year:

Mr A. Payne	Chief Financial Officer
Ms M. Kublins	Executive General Manager – Property & Development
Mr D. Fitzharris	Group General Manager – Sales & Marketing
Mr P. Scott	General Manager – Austral Bricks and Bristle Roofing Western Australia
Mr P. Caughey	General Manager – Austral Bricks Victoria
Mr M. Ellenor	General Manager – Austral Bricks New South Wales
Mr D. Millington	General Manager – Bristle Roofing East Coast
Mr I. Thompson	Group Company Secretary

## Remuneration of Individual Key Management Personnel

Directors (\$000's)	Year	Short term employee benefits			Post employment (Super)	Share based payment (Long term bonus) <sup>(4)</sup>	Termi- nation Benefits	Total
		Base salary / fees	Short term bonus <sup>(3)</sup>	Non- monetary benefits				
R. Millner	2009	160	-	-	14	-	-	174
	2008	160	-	-	14	-	-	174
M. Millner	2009	80	-	-	7	-	-	87
	2008	80	-	-	7	-	-	87
B. Crotty	2009	80	-	-	7	-	-	87
	2008	13	-	-	1	-	-	14
D. Gilham	2009	80	-	-	7	-	-	87
	2008	80	-	-	7	-	-	87
R. Webster	2009	90	-	-	8	-	-	98
	2008	90	-	-	8	-	-	98
L. Partridge	2009	818	-	47	95	402	-	1,332
	2008	806	504	53	68	336	-	1,767
A. Bentley	2009	27	-	-	2	-	150	179
	2008	80	-	-	7	-	-	87
T. Fairfax	2009	13	-	-	1	-	150	164
	2008	80	-	-	7	-	-	87
Totals	2009	1,348	-	47	141	402	300	2,208
	2008	1,389	504	53	119	336	-	2,401

Other Key Management Personnel (\$000's)	Year	Short term employee benefits			Post employment (Super)	Share based payment (Long term bonus) <sup>(4)</sup>	Termi- nation Benefits	Total
		Base salary / fees	Short term bonus <sup>(3)</sup>	Non- monetary benefits				
A. Payne <sup>(1), (2)</sup>	2009	400	-	21	35	249	-	705
	2008	400	305	13	34	208	-	960
M. Kublins <sup>(2)</sup>	2009	328	-	28	29	136	-	521
	2008	315	205	17	27	105	-	669
D. Fitzharris <sup>(2)</sup>	2009	326	-	14	29	108	-	477
	2008	316	-	39	28	106	-	489
P. Scott <sup>(2)</sup>	2009	325	-	31	14	147	-	517
	2008	533	-	29	13	147	-	722
P. Caughey <sup>(2)</sup>	2009	259	-	23	22	47	-	351
	2008	n/a	n/a	n/a	n/a	n/a	n/a	n/a
M. Ellenor <sup>(2)</sup>	2009	224	-	32	17	41	-	314
	2008	n/a	n/a	n/a	n/a	n/a	n/a	n/a
D. Millington <sup>(2)</sup>	2009	216	90	14	25	54	-	399
	2008	216	100	23	25	34	-	398
I. Thompson <sup>(1)</sup>	2009	167	-	16	15	30	-	228
	2008	156	35	8	15	26	-	240
D. Willmot <sup>(5)</sup>	2009	n/a	n/a	n/a	n/a	n/a	n/a	n/a
	2008	87	-	51	15	20	246	419
Totals	2009	2,245	90	179	186	812	-	3,512
	2008	2,023	645	180	157	646	246	3,897

### Notes

- (1) Messrs Payne and Thompson are Company Executives as defined under s300A(1B) of the Corporations Act.
- (2) Messrs Payne, Fitzharris, Scott, Caughey, Ellenor, and Millington, and Ms Kublins are Group Executives as defined under s300A(1B) of the Corporations Act, and Key Management Personnel (KMP) as defined in AASB124 Related Party Disclosures. Messrs Caughey and Ellenor were not KMP during 2008.
- (3) The short term bonus amounts disclosed were approved by the Remuneration Committee on 25 August 2009, in relation to performance during the 2009 financial year (2008 granted on 27 August 2008). The short term bonus payments were made during the month following approval.
- (4) The long term incentive amounts reflect the value of shares vested to the employee during the financial year that were granted in prior years. On the same date as the Remuneration Committee approved the short term bonus, they also approved various long term incentive amounts for each of the employees listed above, to be granted as shares in the Deferred Employee Share Plan (as outlined in the section on the share plan above).
- (5) Mr Willmot resigned from his position on 29 February 2008.

### **Discussion in relation to specific executives**

The Company has signed employment contracts with the Managing Director and other senior executives of the Brickworks group. There is no fixed termination date under the contract, however the terms allow for a review every five years, or in certain limited circumstances, such as a material change in the executives position.

If the executive resigns from their employment, they are entitled to their salary up to termination date plus any accrued leave provisions. They will also be entitled to a pro-rata portion of the average of the previous 3 years annual bonus.

If the Company terminates Mr Partridge (Managing Director) other than under immediate termination (as defined in his employment contract), he will receive six months notice (or a payment equivalent to this amount in lieu of notice), plus a termination benefit of twelve months base salary and the average of the previous three years annual bonus. In addition Mr Partridge will receive immediate access to all unvested shares held on his behalf by the Brickworks Deferred Employee Share Plan.

If the Company terminates the specified executives other than under immediate termination (as defined in their employment contract), the executive will receive up to six months notice (or a payment equivalent to this amount in lieu of notice), plus a termination benefit of six months base salary and a pro-rata of the average of the previous three years annual bonus. In addition the executive will receive immediate access to all unvested shares held on their behalf by the Brickworks Deferred Employee Share Plan.

If the Managing Director or any executive is subject to immediate termination (as defined in their employment contract), Brickworks is not liable for any termination payments to the employee other than any outstanding base pay and accrued leave amounts. All unvested shares held on their behalf by the Brickworks Deferred Employee Share Plan will be forfeited.

All senior executives gain strategic business knowledge during the course of their employment. Brickworks will use any means available to it by law to ensure that this information is not used to the detriment of the Company by any staff member on termination. In order to protect the Group's interests, Brickworks has an enforceable restraint through the executive's employment contract to prevent executives either going to work for a competitor, or inducing other employees to leave the Company, for a specified period. In consideration of the restraint, executives will receive a monthly payment, equivalent to their existing base salary plus one twelfth of the average of the previous three annual bonuses, for a period of time. For the Managing Director this period is 12 months, and for other executives this period is up to 6 months.

The employment contracts referred to above have been prepared and reviewed by an external party. The Managing Director's salary package has also been reviewed by an external party and is considered to be fair and reasonable.

**Auditor's independence declaration**

The Directors received an independence declaration from the auditor, Ernst & Young. A copy has been included on page 17 of the report.

**Provision of non-audit services by external auditor**

During the year the external auditors, Ernst & Young, provided non-audit services to the Group, totalling \$138,874. The Directors through the Audit Committee are of the opinion that the provision of non-audit services has not compromised the independence of the auditors.

The non-audit services were all for the provision of accounting advice, which was general in nature, relating to the interpretation and potential application of accounting standards. Brickworks management has been responsible for selecting, applying and calculating all impacts of accounting standards on the Group's financial statements.

The details of total amounts paid to the external auditors are included in note 5 to the financial statements.

**Proceedings on behalf of the Company**

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

The Company was not a party to any such proceedings during the year.

**Indemnification of Directors and officers**

The Company's Rules provide for an indemnity of Directors, executive officers and secretaries where liability is incurred in connection with the performance of their duties in those roles other than as a result of their negligence, default, breach of duty or breach of trust in relation to the Company. The Rules further provide for an indemnity in respect of legal costs incurred by those persons in defending proceedings in which judgment is given in their favour, they are acquitted or the Court grants them relief.

Since the end of the previous financial year, the Company has paid insurance premiums in respect of Directors' and officers' liability. The insured persons under those policies are defined as all Directors (being the Directors named in this Report), executive officers and any employees who may be deemed to be officers for the purposes of the Corporations Act 2001.

**Rounding of Amounts**

The Company has applied the relief available to it under ASIC Class Order 98/100 and accordingly, amounts in the financial report and Directors' report have been rounded off to the nearest \$1,000 where allowed under that class order.

Made in accordance with a resolution of the Directors at Sydney.

Dated 24 September 2009.

R.D. MILLNER  
Director

L.R. PARTRIDGE  
Director