*Fletcher Building – Report for the six months ended 31 December 2010*

# HALF YEAR REVIEW

FletcherBuilding

# Half year review

Directors are pleased to present the unaudited financial results for the six months ended 31 December 2010.

Net earnings were $166 million, 8 percent higher than for the prior corresponding period. Operating earnings (earnings before interest and tax) increased to $285 million, from $271 million in the same period in the previous year. Cashflow from operations was $202 million compared with $317 million in the prior corresponding period.

Sales increased by 2 percent to $3,468 million from $3,393 million. Building Product's sales were adversely impacted by the termination of the insulation subsidy programme in Australia. Distribution had positive growth in sales but this was impacted by the business disruption in Canterbury following the earthquake, and by a slowdown in new house building activity. Infrastructure recorded growth in its concrete operations in New Zealand and in its Australian sand quarry activities, while construction revenues and residential house sales were also up. Strong growth in Australia and Asia more than offset weaker volumes in Europe for Laminates & Panels. Steel had good growth in distribution revenues in New Zealand.

Earnings per share were 27.3 cents, up 7 percent compared with 25.5 cents in the prior corresponding period.

This is a strong result in the context of mixed market conditions. In New Zealand the recovery in residential house building activity has stalled, but high infrastructure work levels and good cost containment aided earnings growth. The stronger Australian economy has meant that most group businesses there have achieved pleasing earnings growth. Beyond Australasia, Formica has continued to lift its earnings through continued growth in Asian revenues and higher North American margins despite flat volumes in that market.

Overall, this result reflects the group's geographic and product diversity. It is especially pleasing that earnings growth of 8 percent has been achieved despite subdued trading conditions in New Zealand and the US, and weakness in many European markets.

The Canterbury earthquake and continued aftershocks have negatively impacted Fletcher Building's New Zealand businesses in the first half of the year, and repair and reconstruction efforts have been hampered by the severe earthquake on 22 February 2011. Similarly, there has been business disruption in January as a result of the Queensland and Victorian floods but activity is expected to pick up later in the year as rebuilding work gets underway.

# Building Products

The Building Products division reported operating earnings of $56 million, down 26 percent on the $76 million earned in the previous corresponding period.

This was due in large part to the impact of the Australian government stimulus package on the insulation business in the first half of the previous financial year.

Operating earnings for the plasterboard business were down 3 percent after significant new product development, in a flat New Zealand residential construction market and competitive pricing environment.

Operating earnings for the insulation business were down 51 percent due primarily to the strong positive effect of the government stimulus package in Australia on volumes in the previous corresponding period, and in the current period the impact on pricing and manufacturing efficiencies of a large industry-wide over supply of batts stock arising from the termination of the scheme in February 2010. This was partially offset by the benefits obtained from a number of initiatives undertaken at the Melbourne plant in the second half of the 2010 financial year, albeit the full benefit of these initiatives will not be realised until stock levels and manufacturing volumes return to normal levels in the 2012 financial year.

Wet weather in Queensland and New South Wales also impacted the business in the latter part of the period, while in New Zealand weaker residential demand arising from a reduction in uptake of the government insulation retrofit scheme and weak new build construction also adversely impacted earnings. Despite continued weakness in the New Zealand non-residential construction sector, the commercial insulation and ceiling and wall systems business was up significantly with share gains and improved operating performance.

Operating earnings for the roof tiles business were down 22 percent primarily due to the receipt in the previous corresponding period of final insurance proceeds for the 2008 fire at the United States plant. Volumes were up in Africa, Europe and Asia, flat in New Zealand, and down in the US, with particular weakness experienced in the US and Europe toward the end of the period as harsh winter conditions and a deteriorating economic outlook impacted demand. Overheads were up on the back of significant new investment in product and development, while some exchange rate relief was experienced.

Operating earnings for the Australian based sinkware business and the New Zealand based aluminium business were up 22 percent on the previous corresponding period. Weakness in the sinkware business' domestic market was offset by an improved export performance and a continued focus on higher value products. The aluminium business experienced significant improvements in its core domestic volumes and margins on the back of share gain and a strong manufacturing performance, although export and commercial markets were weaker.

*From the ground up in Africa*


**Roof Tile Group:**
Building roofs in Africa.

**More online:**
fletcherbuilding.com/divisions/building-products

# Distribution

The Distribution business, PlaceMakers, reported operating earnings up 47 percent to $25 million.

Sales rose 3 percent despite the interruption to trading activity in the Canterbury region due to the earthquake in September 2010 and recurrent seismic activity.

The result was driven by an ongoing programme to reduce costs right across the value chain and improve margins at each branch.

Activity by DIY customers was also subdued but this was able to be offset by the re-launch of PlaceMakers' customer loyalty programme. The Know How Card rewards DIY customer loyalty, and 31,000 new cards were issued in the 6 months to take active cards to 182,000.

There was a substantial lift in roofing sales with the launch of a residential installed solution in Christchurch and this initiative will be extended to other regions.

A number of branches are undergoing refurbishment (including Hawera, Albany, and Pakuranga) to ensure brand standards are maintained. A new branch will open in Pukekohe in April 2011 and several more locations will be finalised in 2011.

A new integrated trade operating platform is being launched across three Christchurch branches which will provide for full digital plan take off, materials estimating, pricing job management and delivery. This unique trading platform will provide a significant competitive advantage once it has been fully developed at a trade level.

## *Know How for the DIY market*


**PlaceMakers:**
'Know how. Can do.' for builders and DIY.

**More online:**
fletcherbuilding.com/divisions/distribution

# Steel

*Adding value, at a profit*

Steel's operating earnings increased slightly to $43 million from $42 million in the prior corresponding period.

Most businesses benefited from the increase in activity levels with the exception of the long steel business which was negatively impacted by low volumes and low margins.

Revenues were 6 percent higher than the prior year driven by higher volumes and marginally higher pricing.

The long steel businesses had a disappointing first half, and earnings declined by 50 percent to $8 million. At Pacific Steel overall revenue was down 4 percent driven by volumes being flat compared with the prior year and pricing 4 percent lower than the prior year. This together with higher scrap prices significantly reduced margins. Global pricing remains very competitive due to low levels of construction activity in Europe and the US. Imports of reinforcing product into the New Zealand market at discounted prices increased during the period which had a significant impact on pricing locally.

The roll-forming and coatings business performed strongly, increasing operating earnings by 26 percent to $29 million for the half year. Volumes were flat as house building activity increased modestly in New Zealand and Australia whereas commercial construction activity continued to be subdued. Margins were higher due to improved pricing and the strengthened Australian and New Zealand currencies which kept input prices stable.

The distribution and services businesses recorded strong growth in operating earnings, which increased by 86 percent. Easysteel's volumes were up 16 percent on the prior year. The prior year's result was also adversely impacted by inventories acquired at higher prices which had contracted margins.

**Stramit Building Products:** Manufacturing and delivering roll-formed steel building products across Australia.

**More online:** fletcherbuilding.com/divisions/steel

# Laminates & Panels

Operating earnings for Laminates & Panels were $80 million, up 14 percent from $70 million in the prior corresponding period.

Laminex's operating earnings were $57 million for the six months to December, an increase of 27 percent on the underlying earnings of $45 million for the prior corresponding period. The underlying operating earnings in the prior corresponding period were boosted by a $10 million gain on the sale of the Welshpool site in Western Australia and $5 million in savings in site closure provisions, resulting in earnings including one offs being reported as $60 million for that period.

Australian revenues were 10 percent higher driven by new product releases, new housing completions, and government stimulus in respect of new educational facilities, while conditions in the commercial sector remained relatively weak.

New Zealand revenues were in line with the prior year's with the economy continuing to remain subdued.

Competitive pressures in Australia and New Zealand have remained strong with prices flat over the period. Resin costs increased due to general commodity price rises but this was offset by stronger Australian and New Zealand currencies.

The floods in Queensland and Victoria did not cause any structural, property or inventory damage to Laminex's operations but the disruption to activity levels will negatively impact second half operating earnings. Supply of product to customers is not expected to be interrupted.

*Rethink generates profit growth*

**Laminex:**
A modern kitchen fit-out showcases Laminex's products.

**More online:**
fletcherbuilding.com/divisions/laminex

Operating earnings for Formica were $23 million, up 130 percent on the same period last year, while revenue was down by 6 percent largely due to adverse foreign exchange translation movements for reporting purposes.

Results for the prior corresponding period included $5 million of restructuring charges.

Volumes overall were flat, however, markets were very mixed geographically with volumes in Asia up by 15 percent on last year, North America down by 3 percent and Europe down by 8 percent.

In Asia operating earnings of $19 million were up by 12 percent on last year. Revenue in local currency terms was up by 12 percent. Performance in China was pleasing with revenue up by 15 percent, while activity levels in both Taiwan and Thailand were solid with revenues up by around 8 percent and 7 percent respectively. Across the region price and margins remained firm.

Activity levels and demand in North America were relatively flat with volume down 3 percent. Revenue in domestic currency terms was up slightly by 2 percent on the prior corresponding period due to improved customer margins and product mix. Operating earnings were up from $4 million in the prior corresponding period to $11 million, driven by logistics, warehousing and distribution initiatives, and further efficiency gains.

Europe continued to experience a difficult trading environment with revenue for the region down 8 percent in local currency terms; however, prices remained firm and market share was maintained. Operating earnings of $1 million were up by $5 million on the same period last year. The improved performance was the result of a continuation of a number of operational efficiency initiatives introduced last year coupled with the non-recurrence of restructuring costs incurred last year.

Trading conditions remained particularly tough in the United Kingdom and Spain due to the economic climate and government austerity measures. Both residential and commercial activity in these countries was down on last year and revenues in local currency terms fell by 10 percent in each market. Activity levels in the Nordic region and Continental Europe were down by a similar extent. However, strong growth was recorded in Russia and other former Soviet Union countries, and geographical expansion into Africa and India was pursued.

## *Luxury made affordable*

**Formica:**
180fx™ replicates the look and scale of exotic natural granite slabs.

**More online:**
fletcherbuilding.com/divisions/formica

# Infrastructure

Infrastructure's operating earnings for the first six months were $90 million, up 20 percent compared with $75 million in the prior corresponding period.

Earnings growth was achieved through cost savings, productivity improvements, the favourable timing in the completion of construction contracts, and a significant increase in the number of house settlements.

Operating earnings in the concrete businesses in New Zealand were $6 million higher than the prior corresponding period. Softer demand meant readymix concrete and masonry products volumes were 4 percent and 5 percent lower respectively than for the prior corresponding period. Aggregate and concrete pipe volumes were up due to infrastructure and roading activity particularly in the Auckland region. Cement volumes were steady and prices increased, but pricing pressure was experienced for most other products. Cost reduction and efficiency initiatives mitigated the impact of lower volumes and prices.

In Australia, pipeline products experienced softer market conditions with volumes down 19 percent. A favourable sales mix, cost reductions and other business improvements limited the reduction in earnings to $3 million. Quarry volumes were significantly higher with demand in Western Australia up substantially, and ahead in all regions for most products. Earnings in the quarry business were $2 million higher than last year.

Construction earnings were $4 million higher than the prior corresponding period. The construction backlog was $885 million at the end of December. In addition, Fletcher Construction was named as preferred contractor on a further $440 million of projects not included in the backlog. Major contracts won in the period include the ASB head office in Auckland, and project management of the Earthquake Commission claims resulting from the Canterbury earthquake.

Operating earnings from property sales were $13 million compared to $7 million in the prior corresponding period. Residential house sales were up 42 percent and earnings increased by $7 million, driven by the greater availability of finished house stocks and strong demand at the Stonefields subdivision in Auckland. Market conditions elsewhere remained weak.

The purchase of Australian Construction Products Pty Ltd, a manufacturer and supplier of roading products in Australia, was completed in September, while in November a new construction and commercial waste facility in Auckland was commissioned.

*A record of delivery*

**Eden Park Redevelopment:** Fletcher Construction secures infrastructure developments.

**More online:** fletcherbuilding.com/divisions/infrastructure


**New Lynn Rail Trench:** Completed in August, the New Lynn Rail Trench project for KiwiRail will long be remembered by the hundreds who worked on it for both its challenging and rewarding aspects.

**Stonefields:** From foundation to roof, Fletcher Building's products are integrated into the Fletcher Residential Stonefields housing development.

# Strategy & outlook

## Strategy

Fletcher Building's long term strategy continues to be to improve earnings reliability through geographical and product diversification, to maintain and improve internal capabilities, and to pursue acquisition opportunities where these meet key investment criteria.

In New Zealand, the focus is on maintaining and growing existing businesses and pursuing means of strengthening distribution capability.

Australia remains the key geography for pursuit of the group's growth aspirations. The strategy is to continue building on existing positions in the building products and construction materials sectors over time.

The proposed acquisition of Crane Group Limited is consistent with this strategy. Its businesses are complementary to Fletcher Building's, and successful completion of the transaction will see an extension to the group's range of building products and expansion of its distribution footprint across Australia and New Zealand.

Beyond Australasia, the priority remains developing the laminates business, particularly with regard to extending Formica's footprint in Asia. While Australasia is the principal area of focus, Fletcher Building is committed to maintaining a leading position globally in laminates through Formica and Laminex.

## Outlook

The outlook for the 2011 financial year continues to be mixed as to the pace with which economic conditions are improving around the world and as to the impact of the Queensland floods and the Canterbury earthquake on activity levels.

In New Zealand, residential house building activity is not expected to improve in the second half given the recent consenting data, however, there have been more encouraging trends seen in commercial construction consents. Work on rebuilding Canterbury following the earthquake in September 2010 has been hampered by the severe earthquake on 22 February 2011. The government's scheme to facilitate the remediation of tens of thousands of leaky homes is now not expected to get underway until the 2012 financial year.

Infrastructure spending by the government is forecast to be lower this year due to the timing and implementation of larger projects, but based on government estimates, will increase in the 2012 financial year.

In Australia, conditions are expected to remain relatively favourable driven by the continued strength in the mining and resources sectors. However, new housing starts and commercial construction activity levels may weaken in the near term. Investment in infrastructure is expected to continue around current levels. The consequence of the recent flooding and cyclone damage in Queensland and Victoria may cause some negative impact in the current year although repair and rebuilding work should contribute more significantly in the 2012 financial year.

Further afield, South East Asian markets and mainland China are expected to continue strong growth, while North Asian markets are likely to remain subdued. European volumes overall are not expected to show growth. Businesses in North America are well placed for any pick up in volumes but there remains considerable uncertainty as to the timeframe for a sustained recovery in the US.

Ralph Waters
Chairman of Directors

Jonathan Ling
Managing Director

*"The proposed acquisition of Crane Group Limited is consistent with our strategy."*

*Jonathan Ling, CEO*

**More online:**
fletcherbuilding.com/divisions/

# Financial review

## Balance sheet

The group's gearing[1] at 31 December 2010 was 28.4 percent compared with 26.8 percent at 30 June 2010. The increase was due to investing activities, with the acquisition of Australian Construction Products in September, and the 14.9 percent shareholding in Crane Group Limited for $141 million in December. The gearing figure remains well below the target range of 40 to 50 percent. If the company is successful in acquiring 100 percent of Crane Group Limited on the revised terms, the gearing is expected to be approximately 34 percent.

## Funding

The group had total available funding of $2,345 million as at 31 December 2010 of which approximately $1,002 million was undrawn, and cash on hand of $84 million. Bank debt facilities represented 51 percent of total available funding, US private placements 32 percent and capital notes 17 percent. Debt requiring refinancing within the next 12 months is $481 million. This includes $68 million of capital notes subject to interest rate and term reset, $111 million of expiring drawn facilities and $302 million of undrawn facilities. The bulk of the expiring facilities are syndicated bank facilities which may be refinanced.

## Debt maturity

The average maturity of the debt of $1,343 million is 4.5 years and the currency split is 61 percent Australian dollar; 18 percent New Zealand dollar; 16 percent US dollar; 4 percent Euro; and 1 percent Pounds Sterling.

## Interest rates

Approximately 85 percent of all borrowings have fixed interest rates with an average duration of 3.9 years and a rate of 7.6 percent. Inclusive of floating rate borrowings the average interest rate on the debt is currently 7.2 percent. All interest rates are inclusive of margins but not fees.

Interest coverage[2] for the period was 5.6 times and the group remains in a sound financial position.

## Cashflow

Cashflow from operations was $202 million compared with $317 million in the first six months of the 2010 financial year. As foreshadowed at the start of the year, inventory levels were expanded during the period to ensure that group businesses are well positioned to respond to an upturn in activity levels. Operating cashflow was also impacted by increased residential land purchase settlements, and the utilisation of restructuring provisions.

Capital expenditure for the period was $148 million compared with $76 million in the prior corresponding period. Of this total, $74 million

[1] Interest bearing debt (including capital notes) to interest bearing debt (including capital notes) and equity

[2] EBIT before unusual items to total interest paid including capital notes interest

was for stay-in-business capital projects, $22 million was for new growth initiatives, and $52 million was for the acquisition of new businesses. Significant investments during the period included the acquisition of Australian Construction Products, and the expansion of the Laminex medium density fibreboard plant in Queensland.

In addition, a 14.9 percent shareholding in Crane Group Limited was acquired towards the end of the period for $141 million.

## Dividend

The interim dividend is 16 cents per share. In line with the recently announced dividend imputation and franking policy, the interim dividend will be fully franked for Australian tax purposes, but will not be imputed for New Zealand tax purposes. Consistent with the new policy, the final dividend is expected to be fully imputed. An assessment of further franking credit availability will be made at that time.

The dividend will be paid on 1 April 2011 to holders registered as at 5.00 pm Friday 4 March 2011 (NZT). The shares will be quoted on an ex dividend basis from 28 February 2011 on the ASX and 2 March 2011 on the NZX.

## Dividend reinvestment plan

In view of the group's strong balance sheet and low level of gearing at present, the dividend reinvestment plan will not be operational for this dividend payment.

## Financial highlights

*(unaudited)*

| | Fletcher Building Group | | |
|---|---|---|---|
| | Six months Dec 2010 | Year ended June 2010 | Six months Dec 2009 |
| Return on average funds employed (%) | **13.5** | 12.7 | 13.2 |
| Return on average equity (%) | **10.7** | 9.1 | 10.4 |
| Earnings per share (cents) | **27.3** | 44.9 | 25.5 |
| Dividends per share (cents) | **16.0** | 29.0 | 14.0 |
| Gearing (%) | **28.4** | 26.8 | 27.3 |
| Interest cover (times) | **5.6** | 4.9 | 5.2 |

# Financial statements

## Earnings statement

*For the six months ended 31 December 2010 (unaudited)*

| | Fletcher Building Group | | |
|---|---|---|---|
| | Six months Dec 2010 NZ$M | Year ended June 2010 NZ$M | Six months Dec 2009 NZ$M |
| Sales | **3,468** | 6,799 | 3,393 |
| Cost of goods sold | **(2,613)** | (5,141) | (2,569) |
| Gross margin | **855** | 1,658 | 824 |
| Selling and marketing expenses | **(337)** | (645) | (316) |
| Administration expenses | **(246)** | (510) | (258) |
| Share of profits of associates | **16** | 26 | 10 |
| Other investment income | | 2 | 1 |
| Other gains/(losses) | **(3)** | (10) | 10 |
| **Operating earnings (EBIT)** | **285** | 521 | 271 |
| Funding costs | **(51)** | (107) | (52) |
| Earnings before taxation | **234** | 414 | 219 |
| Taxation expense | **(63)** | (132) | (59) |
| **Earnings after taxation** | **171** | 282 | 160 |
| Earnings attributable to minority interests | **(5)** | (10) | (6) |
| **Net earnings attributable to the shareholders** | **166** | 272 | 154 |

## Earnings statement – continued

*For the six months ended 31 December 2010 (unaudited)*

| | Fletcher Building Group | | |
|---|---|---|---|
| | Six months Dec 2010 | Year ended June 2010 | Six months Dec 2009 |
| Net earnings per share (cents) | | | |
| Basic | **27.3** | 44.9 | 25.5 |
| Basic (excluding unusuals) | **27.3** | 49.7 | 25.5 |
| Diluted | **26.9** | 44.7 | 25.4 |
| Weighted average number of shares outstanding (millions of shares) | | | |
| Basic | **609** | 606 | 605 |
| Diluted | **662** | 624 | 662 |
| Dividends declared per share (cents) | **16.0** | 29.0 | 14.0 |

The accompanying notes form part of and are to be read in conjunction with these financial statements.

## Statement of comprehensive income

*For the six months ended 31 December 2010 (unaudited)*

| | Fletcher Building Group | | |
|---|---|---|---|
| | Six months Dec 2010 NZ$M | Year ended June 2010 NZ$M | Six months Dec 2009 NZ$M |
| Net earnings – parent interest | **166** | 272 | 154 |
| Net earnings – minority interest | **5** | 10 | 6 |
| Net earnings | **171** | 282 | 160 |
| Movement in the cashflow hedge reserve | **(8)** | 4 | 8 |
| Movement in currency translation reserve | **65** | (88) | (46) |
| Income and expenses recognised directly in equity | **57** | (84) | (38) |
| **Total comprehensive income for the period** | **228** | 198 | 122 |

On behalf of the Board, 16 February 2011.

Ralph Waters
Chairman of Directors

Jonathan Ling
Managing Director

## Statement of movements in equity

*For the six months ended 31 December 2010 (unaudited)*

| | Fletcher Building Group | | |
|---|---|---|---|
| | Six months Dec 2010 NZ$M | Year ended June 2010 NZ$M | Six months Dec 2009 NZ$M |
| **Total equity** | | | |
| At the beginning of the period as previously published | **3,023** | 2,990 | 2,990 |
| Change in accounting policy | | (6) | (6) |
| At the beginning of the period as restated | **3,023** | 2,984 | 2,984 |
| Total comprehensive income for the period | **228** | 198 | 122 |
| Movement in minority equity | **(7)** | (8) | (6) |
| Movement in reported capital | **32** | 20 | 13 |
| Dividends | **(92)** | (169) | (85) |
| Movement in share option reserve | | 1 | |
| Less movement in shares held under the treasury stock method | **(4)** | (3) | (4) |
| **Total equity** | **3,180** | 3,023 | 3,024 |

## Balance sheet

*As at 31 December 2010 (unaudited)*

| | Fletcher Building Group | | |
|---|---|---|---|
| | Dec 2010 NZ$M | June 2010 NZ$M | Dec 2009 NZ$M |
| **Assets** | | | |
| Current assets: | | | |
| Cash and liquid deposits | **84** | 112 | 146 |
| Debtors | **1,053** | 1,114 | 1,048 |
| Stocks | **1,139** | 1,091 | 1,025 |
| Total current assets | **2,276** | 2,317 | 2,219 |
| Non current assets: | | | |
| Fixed assets | **1,940** | 1,909 | 1,931 |
| Goodwill | **845** | 820 | 816 |
| Intangibles | **410** | 409 | 405 |
| Investments in associates | **195** | 189 | 195 |
| Investments – other | **219** | 70 | 69 |
| Total non current assets | **3,609** | 3,397 | 3,416 |
| **Total assets** | **5,885** | 5,714 | 5,635 |

## Balance sheet – continued

*As at 31 December 2010 (unaudited)*

| | Fletcher Building Group | | |
|---|---|---|---|
| | Dec 2010 NZ$M | June 2010 NZ$M | Dec 2009 NZ$M |
| **Liabilities** | | | |
| Current liabilities: | | | |
| Provisions | **50** | 61 | 76 |
| Creditors and accruals | **992** | 1,116 | 952 |
| Current tax liability | **41** | 25 | 51 |
| Contracts | **88** | 96 | 96 |
| Borrowings | **103** | 86 | 112 |
| Total current liabilities | **1,274** | 1,384 | 1,287 |
| Non current liabilities: | | | |
| Provisions | **16** | 17 | 18 |
| Creditors and accruals | **67** | 64 | 66 |
| Pension liability | **40** | 44 | 47 |
| Deferred taxation liability | **68** | 49 | 24 |
| Borrowings | **1,240** | 1,133 | 1,169 |
| Total non current liabilities | **1,431** | 1,307 | 1,324 |
| **Total liabilities** | **2,705** | 2,691 | 2,611 |

## Balance sheet – continued

*As at 31 December 2010 (unaudited)*

| | Fletcher Building Group | | |
|---|---|---|---|
| | Dec 2010 NZ$M | June 2010 NZ$M | Dec 2009 NZ$M |
| **Equity** | | | |
| Reported capital | **1,940** | 1,912 | 1,904 |
| Revenue reserves | **1,073** | 999 | 965 |
| Other reserves | **135** | 78 | 123 |
| Shareholders' funds | **3,148** | 2,989 | 2,992 |
| Minority equity | **32** | 34 | 32 |
| Total equity | **3,180** | 3,023 | 3,024 |
| **Total liabilities and equity** | **5,885** | 5,714 | 5,635 |

## Statement of cashflows

*For the six months ended 31 December 2010 (unaudited)*

| | Fletcher Building Group | | |
|---|---|---|---|
| | Six months Dec 2010 NZ$M | Year ended June 2010 NZ$M | Six months Dec 2009 NZ$M |
| Cashflow from operating activities | | | |
| Receipts from customers | **3,532** | 6,796 | 3,445 |
| Dividends received | **17** | 24 | 10 |
| Interest received | **1** | | |
| Total received | **3,550** | 6,820 | 3,455 |
| Payments to suppliers, employees and other | **3,262** | 6,100 | 3,062 |
| Interest paid | **53** | 108 | 51 |
| Income tax paid | **33** | 90 | 25 |
| Total applied | **3,348** | 6,298 | 3,138 |
| **Net cash from operating activities** | **202** | 522 | 317 |
| Cashflow from investing activities | | | |
| Sale of fixed assets | **6** | 38 | 5 |
| Sale of investments | **1** | | |
| Total received | **7** | 38 | 5 |
| Purchase of fixed assets | **96** | 189 | 76 |
| Purchase of investments | **143** | 2 | 1 |
| Purchase of subsidiaries | **52** | | |
| Total applied | **291** | 191 | 77 |
| **Net cash from investing activities** | **(284)** | (153) | (72) |

## Statement of cashflows – continued

*For the six months ended 31 December 2010 (unaudited)*

| | Fletcher Building Group | | |
|---|---|---|---|
| | Six months Dec 2010 NZ$M | Year ended June 2010 NZ$M | Six months Dec 2009 NZ$M |
| Cashflow from financing activities | | | |
| Net debt drawdowns / (settlements) | **125** | (145) | (111) |
| Issue of shares | **32** | 2 | 2 |
| Total received | **157** | (143) | (109) |
| Repurchase of capital notes | | 47 | 7 |
| Distribution to minority shareholders | **9** | 13 | 6 |
| Dividends | **92** | 151 | 73 |
| Total applied | **101** | 211 | 86 |
| **Net cash from financing activities** | **56** | (354) | (195) |
| Net movement in cash held | **(26)** | 15 | 50 |
| Add opening cash and liquid deposits | **112** | 99 | 99 |
| Effect of exchange rate changes on net cash | **(2)** | (2) | (3) |
| **Closing cash and liquid deposits** | **84** | 112 | 146 |

## Reconciliation of net earnings to net cash from operating activities

*For the six months ended 31 December 2010 (unaudited)*

| | Fletcher Building Group | | |
|---|---|---|---|
| | Six months Dec 2010 NZ$M | Year ended June 2010 NZ$M | Six months Dec 2009 NZ$M |
| Cash was received from: | | | |
| Net earnings | **166** | 272 | 154 |
| Earnings attributable to minority interests | **5** | 10 | 6 |
| | **171** | 282 | 160 |
| Adjustment for items not involving cash: | | | |
| Depreciation, depletions, amortisation and provisions | **79** | 198 | 97 |
| Taxation | **30** | 42 | 34 |
| Non cash adjustments | **109** | 240 | 131 |
| Cashflow from operations[1] | **280** | 522 | 291 |
| Less (gain) / loss on disposal of affiliates and fixed assets | | (10) | (10) |
| Cashflow from operations before net working capital movements | **280** | 512 | 281 |
| Net working capital movements | **(78)** | 10 | 36 |
| **Net cash from operating activities**[2] | **202** | 522 | 317 |

[1] Includes loss on disposal of affiliates and fixed assets.

[2] As per the statement of cashflows.

## Breakdown of Financial performance

*For the six months ended 31 December 2010 (unaudited)*

| | Fletcher Building Group | | |
|---|---|---|---|
| | Six months Dec 2010 NZ$M | Year ended June 2010 NZ$M | Six months Dec 2009 NZ$M |
| **Results for the period's performance** | | | |
| Sales – gross | **3,592** | 7,086 | 3,555 |
| Sales – inter-segment | **(124)** | (287) | (162) |
| Sales – external | **3,468** | 6,799 | 3,393 |
| Operating earnings (EBIT) | **285** | 521 | 271 |
| Cashflow from operations | **202** | 522 | 317 |
| Net earnings | **166** | 272 | 154 |
| **Sales** | | | |
| Building Products | **371** | 798 | 436 |
| Distribution | **446** | 878 | 435 |
| Infrastructure | **1,034** | 2,020 | 974 |
| Laminates & Panels | **1,001** | 1,930 | 965 |
| Steel | **616** | 1,172 | 583 |
| Other | | 1 | |
| Total | **3,468** | 6,799 | 3,393 |

## Breakdown of Financial performance – continued

*For the six months ended 31 December 2010 (unaudited)*

| | Fletcher Building Group | | |
|---|---|---|---|
| | Six months Dec 2010 NZ$M | Year ended June 2010 NZ$M | Six months Dec 2009 NZ$M |
| **Operating earnings** | | | |
| Building Products | **56** | 114 | 76 |
| Distribution | **25** | 38 | 17 |
| Infrastructure | **90** | 164 | 75 |
| Laminates & Panels | **80** | 141 | 70 |
| Steel | **43** | 82 | 42 |
| Other | **(9)** | (18) | (9) |
| Total | **285** | 521 | 271 |
| **Total assets** | | | |
| Building Products | **796** | 796 | 788 |
| Distribution | **235** | 246 | 245 |
| Infrastructure | **1,619** | 1,512 | 1,514 |
| Laminates & Panels | **2,182** | 2,208 | 2,176 |
| Steel | **730** | 728 | 680 |
| Other | **323** | 224 | 232 |
| Total | **5,885** | 5,714 | 5,635 |

# Notes to the financial statements

## 1. Basis of presentation

The interim financial statements presented are those of Fletcher Building Limited and its subsidiaries (the "group").

Fletcher Building Limited is a company domiciled in New Zealand, is registered under the Companies Act 1993, and is an issuer in terms of the Securities Act 1978 and the Financial Reporting Act 1993. The interim financial statements have been prepared in accordance with NZ IAS 34 Interim Financial Reporting.

## 2. Changes in accounting policies

The International Accounting Standards Board has issued a number of other standards, amendments and interpretations which are not yet effective. The group has not yet applied these in preparing these interim financial statements although the application of these standards, amendments and interpretations would require further disclosures, but they are not expected to have a material impact on the group's results.

There have been no other changes in accounting policy in the six months ended 31 December 2010, however certain comparatives have been restated to conform with the current period's presentation.

## 3. Contingencies and commitments

Provision has been made in the ordinary course of business for all known and probable future claims but not for such claims as cannot presently be reliably measured. There have been no material movements in capital expenditure commitments, lease commitments, contingent liabilities or contingent assets to that disclosed in the 2010 annual report.

## 4. Other gains and losses

Other gains/(losses) include the following:

| | Fletcher Building Group | | |
|---|---|---|---|
| | Six months Dec 2010 NZ$M | Year ended June 2010 NZ$M | Six months Dec 2009 NZ$M |
| Sale of land | **1** | 13 | 12 |
| Restructuring and redundancies | **(2)** | (20) | (2) |
| Other gains/(losses) | **(2)** | (3) | |
| | **(3)** | (10) | 10 |

## 5. Taxation expense

| | Fletcher Building Group | | |
|---|---|---|---|
| | Six months Dec 2010 NZ$M | Year ended June 2010 NZ$M | Six months Dec 2009 NZ$M |
| Earnings before taxation: | **234** | 414 | 219 |
| Taxation at 30 cents per dollar | **70** | 124 | 66 |
| Adjusted for: | | | |
| Benefit of lower tax rate in overseas jurisdictions | **(2)** | (1) | (2) |
| Tax benefit arising from the conversion of branch equivalent tax account debit balance | | (31) | (31) |
| Non assessable income | **(2)** | (6) | (2) |
| Non deductible expenses | **3** | 4 | 1 |
| Tax in respect of prior periods | **1** | (8) | 1 |
| Impact of tax losses not recognised | **1** | 7 | 7 |
| Valuation allowance | | 29 | 27 |
| Recognition of deferred tax liability on buildings (NZ) | | 29 | |
| Other permanent differences | **(8)** | (15) | (8) |
| | **63** | 132 | 59 |

## 6. Purchase of investments and subsidiaries

On 15 December 2010, the Group announced a proposal to acquire Crane Group Limited, an Australian listed company, in which the Group acquired a 14.9% pre-bid holding. As at 31 December 2010, the Group has recorded the shares held in Crane Group Limited as an investment of $146 million.

During the period, the Group acquired subsidiaries with a total value of $52 million. This includes Australian Construction Products Pty Ltd which was purchased on 1 September 2010 for $47 million. The fair value exercise is underway and will be completed by June 2011.

# Dividend information

*2011 Interim Dividend* [1]

| NZ cents per share | NZ residents on top marginal tax rate of 33% | Australian residents on top marginal tax rate of 46.5% | Australian residents on 15% tax rate | Other non-residents [9] |
|---|---|---|---|---|
| Dividend declared | 16.0000 | 16.0000 | 16.0000 | 16.0000 |
| NZ imputation credits [2] | 0.0000 | | | |
| NZ supplementary dividend [3] | | 0.0000 | 0.0000 | 0.0000 |
| Australian franking credits [4] | | 6.8571 | 6.8571 | |
| **Gross dividend for NZ tax purposes** | **16.0000** | **16.0000** | **16.0000** | **16.0000** |
| NZ tax (33%) [5] | (5.2800) | | | |
| NZ non-resident withholding tax (15%) [6] | | (2.4000) | (2.4000) | (2.4000) |
| **Net cash received after NZ tax** | **10.7200** | **13.6000** | **13.6000** | **13.6000** |
| Australian tax (46.5% and 15%) [7] | | (10.6286) | (3.4286) | |
| Reduced by offset for NZ non-resident withholding tax | | 2.4000 | 2.4000 | |
| Less Australian franking credit offset [8] | | 6.8571 | 6.8571 | |
| **Net cash dividend to shareholders after tax** | **10.7200** | **12.2285** | **19.4285** | **13.6000** |

Notes:

[1] This summary is of a general nature and the tax rates used and the calculations are intended for guidance only. As individual circumstances will vary, shareholders are advised to seek independent tax advice.

[2] No imputation credits are attached to this dividend.

[3] A supplementary dividend is only payable to non-New Zealand shareholders if the dividend is fully or partly imputed. It has the effect of removing the cost of New Zealand non-resident withholding tax (NRWT) on that part of the dividend which has imputation credits attached. As noted in note 2, no imputation credits are attached to this dividend. Accordingly, no supplementary dividend is payable.
Non-resident shareholders with a 10% or greater direct shareholding are not eligible to receive supplementary dividends but are exempt from NRWT, to the extent the dividend is fully imputed.

[4] These amounts are not received in cash from Fletcher Building but are relevant in determining the gross dividend received for Australian tax purposes.

[5] For all NZ resident shareholders who do not hold an exemption certificate, resident withholding tax (RWT) is required to be deducted at 33% from that part of the gross dividend which has not been credited with imputation credits. Accordingly, for those shareholders, a deduction of 5.28 cents per share will be made on the date of payment from the dividend declared of 16.0 cents per share and forwarded to Inland Revenue. Resident shareholders who have a tax rate less than 33% will need to file a tax return to obtain a refund of the RWT.

[6] NZ non-resident withholding tax at the rate of 15% on the gross dividend for NZ tax purposes.

[7] This summary uses two examples of the effect of tax in Australia. The first uses the top marginal tax rate of 46.5%, including the Medicare levy. The second example uses the 15% income tax rate applicable in Australia to complying superannuation funds, approved deposit funds and pooled superannuation trusts. Different tax rates will apply to other Australian shareholders, including individuals, depending on their circumstances.

| The Australian tax is calculated as: | 46.5% rate | 15% rate |
|---|---|---|
| gross dividend for NZ tax purposes | 16.0000 | 16.0000 |
| plus franking credits | 6.8571 | 6.8571 |
| gross dividend for Australian tax purposes | 22.8571 | 22.8571 |
| Australian tax | 10.6286 | 3.4286 |

[8] Any surplus franking credit offset is refundable to Australian resident shareholders on issue of their Australian tax assessment.

[9] This illustration does not purport to show the taxation consequences of the dividend for non-residents of New Zealand and Australia. Shareholders resident in other countries are encouraged to consult their own taxation adviser.

# Shareholder information

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## Shareholder enquiries

Shareholders with enquiries about share transactions or changes of address should contact the share registrar in the country in which their shares are registered.

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