Fletcher Building

**2014**

THIS IS THE 2014 EDITION OF OUR ANNUAL REVIEW.

# Annual Review.

**OUR PEOPLE. STRONGER TOGETHER.**

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WWW.FBU.COM

## Our people. Stronger together.

**The past year has been one of strong progress, both in terms of our financial and operating performance, and in the delivery of our business transformation initiatives.**

**Financial review**
For the 2014 financial year, we established a target to deliver operating earnings (earnings before interest and tax and significant items) of between $610 million and $650 million. Our actual results were well within this range, with operating earnings before significant items of $624 million, up 10% on the prior year.

> One of the challenges in the past year has been the strength of the New Zealand dollar. Had the New Zealand dollar remained stable throughout the period, we would have delivered operating earnings at the top end of this range.

This year's result included significant items totalling $32 million relating principally to the sale of the Pacific Steel and Hudson Building Supplies businesses.

Operating earnings after significant items were $592 million compared with $569 million in the prior year, and net earnings were $339 million, up from $326 million in the prior year.

The lift in earnings was driven by improved market conditions in New Zealand which more than offset subdued construction activity levels in Australia.

Total return to shareholders for the year was 9% including dividends and share price appreciation.

In addition to delivering strong underlying financial performance, the past year has seen significant progress made in implementing the FBUnite business transformation programme. Cost savings and organisational efficiencies were achieved in line with our expectations and the benefits will build over the next few years.

**Business divestments**
Following an extensive review of Fletcher Building's involvement in long steel manufacturing, we announced the sale of Pacific Steel. In selling the business to a local operator, we have helped to ensure that steel manufacturing in New Zealand remains globally competitive. Most Pacific Steel employees were offered employment with the new owner, and those who were not offered employment will be given the opportunity to re-train and move to other roles within Fletcher Building.

In June, we announced the conditional sale of the building materials distribution business, Hudson Building Supplies. The sale followed a review of our Australian business portfolio, which determined the business was not core to our future operations.

**Strategy**
Fletcher Building's strategy remains centred on improved operational leverage and targeted growth opportunities. Our key focus continues to be on the core markets of New Zealand and Australia, with the objective of growing and maintaining positions in building and construction products, as well as in distribution. We will also look to augment this by selective investment in the global Formica business over time.

For us, large scale acquisitions are not a priority, but we will continue to seek opportunities to extend our core positions in New Zealand and Australia through infill and adjacent acquisitions. As we have demonstrated with the sale of the Pacific Steel and Hudson Building Supplies businesses, we are continuing to actively manage our business portfolio and are prepared to divest where we are not the logical or highest value owner of a business.

**EBIT** before significant items

# $624m

**+ Increase over 2013**

**2014 Earnings per share** before significant items 52.7 cents

**11%**

**2014 EBIT** before significant items $624 million

**10%**

**Investing for the future**
This year, we generated $489 million in cash flow from our operating activities, which was lower than the $559 million generated in the preceding year. The reduction was due in part to the increased investment in residential land in Auckland, and we have made further land purchase commitments extending over the next several years that will ensure we are well placed to capture future growth.

Capital expenditure for the year was $260 million. The most significant project during the year was the commissioning of the new Formica plant in Jiujiang, China last November. This plant will meet growth in the China market over the next few years, as well as supplying product into South East Asia and also parts of Europe.

Looking ahead, we expect capital expenditure of between $275 million and $325 million in the current year. The increase is driven by a number of key IT projects as we invest to standardise systems across the group and enhance our digital capabilities.

**Outlook**
Looking ahead to the 2015 financial year, we expect the strong activity levels experienced in the New Zealand market to continue.
In Australia, improved trading conditions are anticipated for those group businesses exposed to the residential sector. Commercial construction activity is expected to improve modestly while engineering activity is likely to remain subdued and government expenditure on construction and engineering will continue to be impacted by fiscal constraints.

In North America, improved housing market conditions in the USA are forecast to continue but commercial activity is expected to remain relatively flat. In Europe, market conditions are expected to be stable overall with some improvement in the UK. In Asia, political instability in Thailand and slower growth in China are likely to temper our trading performance in that region.

**Mark Adamson**
Managing Director

**Ralph Waters**
Chairman of Directors

# Divisional reviews.


## Infrastructure Products

**MARK MALPASS**
CHIEF EXECUTIVE

'Operating earnings before significant items of $229 million were 3% higher than the prior year.'

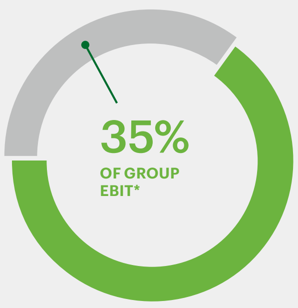
Revenues were largely flat with stronger market conditions in New Zealand offset by lower volumes in Australia.

In New Zealand, cement, aggregates and ready-mix concrete volumes were strong with prices generally stable. In Australia aggregates volumes increased but concrete pipe volumes were lower due to the weaker infrastructure and mining demand.

Australian plastic pipe volumes were down due to weaker building markets partially offset by contracts to supply coal seam gas projects. Earnings were negatively impacted by costs associated with the consolidation of manufacturing sites in New South Wales and Western Australia. New Zealand plastic pipe volumes increased in line with activity levels in Canterbury and Auckland.

Steel operating earnings increased strongly, with long steel volumes up due to increased domestic demand in New Zealand and improved performance in the steel distribution businesses.

EBIT




## Building Products

**TIM RICHARDS**
CHIEF EXECUTIVE

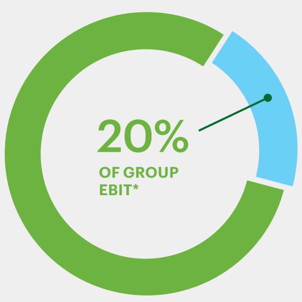
'Building Products operating earnings were $135 million, up 11% on the prior year.'

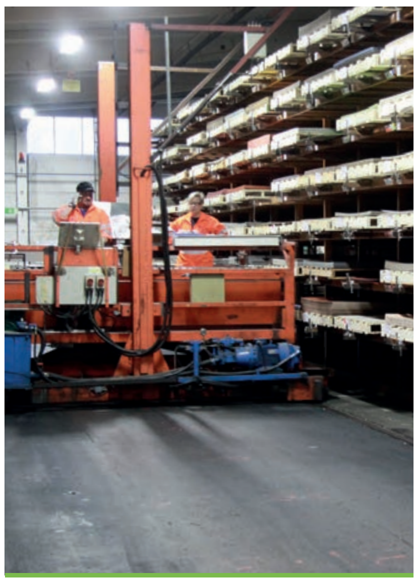
The Plasterboard business recorded increased volumes in line with house building activity in New Zealand.

Insulation operating earnings fell by a third, primarily driven by price and margin compression in New Zealand while glass wool volumes remained flat. In the second half of the year volumes were ahead of prior year, with New Zealand demonstrating share recovery in a growing market and Australia showing some signs of recovery. Australian glass wool margins improved over the second half of the year.

Volumes improved in the Australasian roof tiles businesses and the New Zealand painting and roll-forming businesses. Volumes in the North America roof tiles business declined due to adverse weather conditions, and volumes in Europe and Asia were flat. Australian roll-forming volumes were down but earnings improved with the benefit of significant cost reduction initiatives.

EBIT



## Laminates & Panels

**PAUL ZUCKERMAN**
CHIEF EXECUTIVE

'Operating earnings in Laminates & Panels were $124 million, up 3%.'

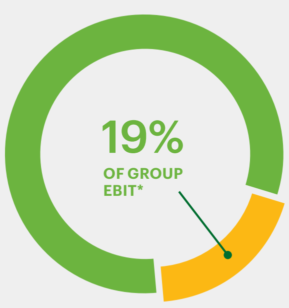
Adjusting for the adverse effects of foreign currency translation, operating earnings would have been up 12%.

Prices and margins were generally flat or slightly down due to strong price competition, and results were impacted by increased input costs for resin and paper.

Formica operating earnings were $63 million, or 9% up on the prior year. In North America, volume was up 4% on the prior year. Volumes in Europe were down 3% on the prior year, while revenue in domestic currencies was flat due in part to improved pricing and a more favourable product mix. Across Asia, revenues and volumes were higher in China, Taiwan, Singapore and Malaysia, while Thailand remained stable.

Laminex operating earnings were $61 million, with Australian revenues ahead of the prior year driven by increased activity and market share gains.

EBIT




## Distribution

**NEW ZEALAND**
**DEAN FRADGLEY**
CHIEF EXECUTIVE

**AUSTRALIA**
**TIM HICKEY**
CHIEF EXECUTIVE

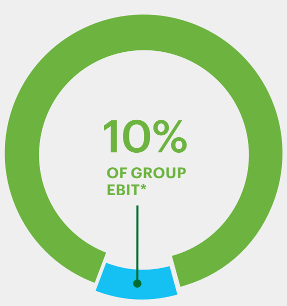
'Distribution New Zealand recorded underlying revenue growth of 7%, with PlaceMakers revenues up 12%.'

PlaceMakers operating earnings were up 47% on the prior year to $53 million, with the impact of competitive pressures on margins more than offset by volume increases as well as operational efficiencies. Mico recorded a loss of $2 million due to restructuring costs incurred in the period.

During the period two new branches were opened, along with two new frame and truss manufacturing plants to cater for increased demand.

Australian distribution revenues in domestic currency were $836 million, up 5% on the prior year with strong growth in the second half of the year as a result of business improvement initiatives leading to market share gains, as well as improving market conditions. Operating earnings before significant items in domestic currency were $15 million, an increase of $9 million on the prior year.

EBIT





## Construction

**GRAHAM DARLOW**
CHIEF EXECUTIVE

'Operating earnings for the year were $105 million, up 21% on the prior year.'

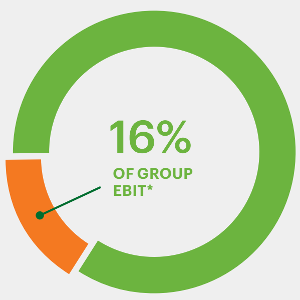
This was due to a significant upturn in the infrastructure business and improved earnings in the South Pacific operations.

The construction backlog of $1,820 million at the end of June was up from $1,022 million as at June 2013. Major contracts awarded during the year include Christchurch Justice Precinct ($200m), the MacKays to Peka Peka section of the Wellington road network ($400m), and the Fonterra Head Office project in Auckland ($70m).

Residential homes sales continued to be strong in Stonefields and other developments in Auckland. A number of land holdings have been secured in the Auckland region for housing development over the next five years.

Fletcher Construction has now completed in excess of 59,000 home repairs for the Earthquake Commission in Canterbury, and the home repair programme is on track to be substantially complete by December 2014.

EBIT




* EBIT BEFORE SIGNIFICANT ITEMS AND CORPORATE COSTS

# Our people.

We employ a diverse workforce of 18,750 people, based across 40 countries.

The three pillars of our people strategy – leadership, talent and culture – have been developed to create a high performance and high engagement workplace across our global footprint. During the year we implemented a leadership development framework to enable us to identify and build a strong pipeline of internal leadership talent at all levels.

The Fletcher Building Learning Academy has delivered programmes to over 5,000 employees globally. We have also developed a talent management programme that has already provided career opportunities for some of our leaders across divisions and internationally.

Building a diverse and inclusive workforce is a key focus area across the group. We have established a Diversity Council, chaired by our CEO that will drive our diversity strategy, measure objectives and ultimately ensure greater participation and inclusion across the group.

As part of this wider programme of work, we have also launched a series of 'Inspiring Women' networking events, which offer an opportunity for our women to meet other Fletcher Building leaders, share experiences and help shape the way forward for women in our business. Inaugural events were held in Auckland and Sydney, with a further 2014 event planned for Christchurch.

We continue to have board representation on the Equal Employment Opportunities Trust and have participated in the Ministry for Women's Affairs pipeline advisory group.

Demand for roles across New Zealand and Australia remains high, with the processing of over 40,000 applications over the last 12 months. 1,250 employees across New Zealand and Australia have been recruited into our businesses directly from the group's talent sourcing centre.

We are continuing our focus on creating a high performance and high engagement workplace culture and also building a communications platform and creating a strong sense of connection for our employees across the globe to the Fletcher Building group.

1,250 employees across New Zealand and Australia have been recruited into our businesses directly from the group's talent sourcing centre.

# Business

Transformation.

A year ago, we outlined the initiatives that had been developed to transform the way in which Fletcher Building operates.

We have made an excellent start in implementing the FBUnite programme, and highlights include:

- the establishment of a new central group procurement function;
- the commencement of operations at the financial shared services centre;
- consolidation of all our property activities into one centre of excellence with responsibility for managing total group property costs across New Zealand and Australia;
- the formation of a centralised IT function with responsibility for all of the group's IT requirements;
- deployment of the Operations Excellence programme to a number of key manufacturing sites across the group.

Total benefits from FBUnite are estimated at approximately $100 million p.a, and in the first year of the programme the benefits realised more than offset the up-front costs. FBUnite is a multi-year programme and the total benefits will take several years to be fully realised.

FBUnite

# Our environment.

As a largely manufacturing-based business, a key focus remains the reduction of $CO_2$ emissions. Our newly established Operations Excellence programme has incorporated our group-wide goal of achieving a 10% reduction in emissions between 2012 and 2020.

In the 2013 Carbon Disclosure Project (CDP) report, Fletcher Building was again the only New Zealand manufacturer named in the Climate Disclosure Leadership Index (one of only five companies across Australia and New Zealand) with a disclosure score of 82 or better. Additionally, our Climate Performance score was described by the Carbon Disclosure Project as 'stand out performance'. Our continued participation in the CDP ensures complete transparency, as we are required to provide a complete inventory of our annual energy use and $CO_2$ emissions, and report on how we manage the risks and opportunities of climate change.

In November, Formica opened its newest production facility in Jiujiang, Jiangxi province in China. The facility has set a new benchmark for sustainable production in the decorative materials industry, with considerable investment made in best practice material sourcing, waste management, energy efficiency, and emission control.

At Rocla's Gaskell Quarry near Perth in Western Australia, a programme has been introduced to restore woodlands after sand extraction. This has led to an 80% species return in the first year of restoration, a figure that adheres to international best practice and positions Rocla as a recognised leader in quarry rehabilitation techniques.

Over the past year we have further reduced our Total Recordable Injury Frequency Rate (TRIFR). We continue to report our 12 month rolling average TRIFR per million employee and contractor hours, with total injuries being the sum of lost-time and medical treatment injuries. In the last year, this rate has dropped from 6.80 to 6.0. In June 2005, this rate was over 60. Our lost time injury frequency rate has dropped from 2.82 to 2.50 (from over 10 in June 2005).

Last year, our Health, Safety & Sustainability Awards were amalgamated with the Fletcher Building Innovation Awards to create the inaugural Fletcher Building Excellence Awards. Held in Auckland in November, high quality submissions were received from across our global network.

Nominated by his colleagues, Taua Papalii, an extrusion press operator from Fletcher Aluminium received the award for Outstanding Individual Contribution to Safety or Workplace Health Improvement to a standing ovation.

Our annual Workplace Safety Initiative Award went to Winstone Wallboards, for developing a Safe Work Practices Guide for the safe site delivery and handling of GIB® plasterboard.

Pictured at the MacKays to Peka Peka project on the Kapiti Coast, New Zealand, ecologists Matiu Park and Barbara Risi fish the Muaupoko Stream. Before working in any waterways the project safely captures and relocates native fish.

Rocla's Gaskell Quarry in Australia restores woodlands after sand extraction.

# Our leaders.

**Farewell**

Ralph Waters

Following my decision to retire from the board in October, the directors have unanimously appointed Sir Ralph Norris to succeed me as chairman. Sir Ralph joined the board in April but had previously served as a non-executive director of Fletcher Building between 2001 and 2005. The past 13 years have been extremely satisfying for me, and it has been a privilege to serve as the chief executive officer of Fletcher Building, and later on as a non-executive director and chairman. I believe that the business today is well placed to grow and to succeed in its chosen markets. I'd like to thank all our shareholders for their support and offer Sir Ralph and Mark my best wishes for the future.

**Ralph Waters**
Chairman of Directors

**Welcome**

Sir Ralph Norris

I was very pleased to re-join the board of Fletcher Building earlier this year. The company has a proud history that dates back over a century, and it will be a privilege to chair the board over the next period of its growth and development.

I'd also like to pay tribute to Ralph Waters and the involvement he has had with Fletcher Building since 2001, firstly as chief executive officer, and subsequently as a non-executive director and then chairman. In all of these roles, Ralph has made a significant contribution to the success of the company as a result of which Fletcher Building is now the largest building materials manufacturer in Australasia.

**Sir Ralph Norris**
Chairman Designate

**Message from CEO**

Mark Adamson

I would like to personally thank Ralph Waters for his leadership of Fletcher Building. Ralph has had a huge influence on the shape of the company as chief executive officer then later as chairman, and he has provided me with strong support and wise counsel in my time with the company. I also welcome our new chairman to the role and I look forward to working closely with Sir Ralph in the future. Sir Ralph's extensive experience in leading large organisations in both New Zealand and Australia will be of great benefit to the company.

**Mark Adamson**
Chief Executive Officer

# Dividends.

The total dividend for the year is 36 cents per share, which is 6% higher than the 34 cents per share paid in the prior year.

As we signalled last year, the dividend has grown at a slower rate than earnings as we seek to return the dividend pay-out ratio to a level that is sustainable over the long term. In February we revised our dividend policy to better reflect our recent practice. In particular, we have established a target dividend pay-out ratio in the range of 50 to 75% of net earnings, to provide sufficient flexibility for dividends to be maintained despite variations in economic conditions.

Our policy on franking and imputation credits remains unchanged. We seek, where possible, for successive dividends to be alternately franked with Australian tax credits and imputed. Unfortunately, due to the reduction in Australian earnings over the past two years, there were insufficient Australian franking credits available for distribution with the half year dividend. The second half dividend of 18 cents per share will be fully imputed for New Zealand tax purposes.

**Interim dividend** per share

**18c**

**Final dividend** per share

**18c**

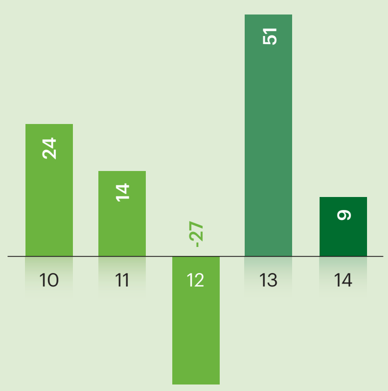
**Total dividend for FY14** per share

**36c**

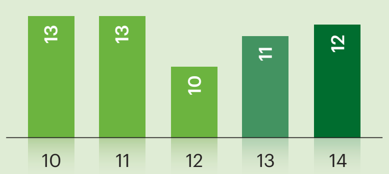
**Record and payment dates**
The dividend will be paid on 15 October 2014 to holders registered as at 5.00pm on Friday, 26 September 2014 (NZT). The shares will be quoted on an ex dividend basis from 24 September 2014 on the NZX and ASX.

## Financial Snapshot

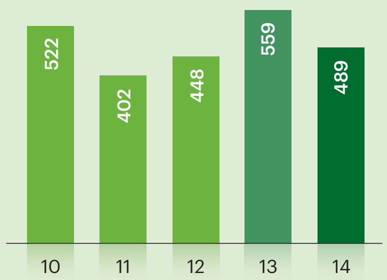
**Total shareholder return** (percentage)



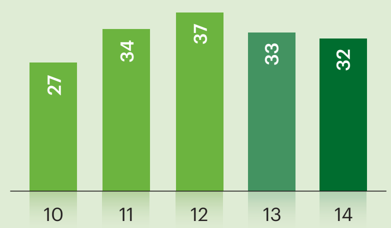

**Return on funds** (percentage)[1]



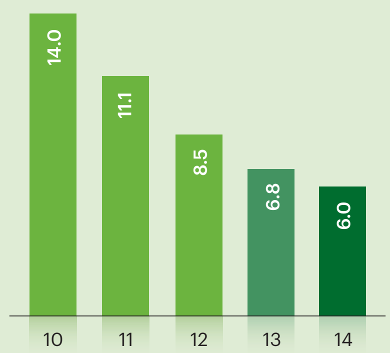

**Operating cashflow** ($million)




**Gearing** (percentage)




**Total Recordable Injury** Frequency Rate (TRIFR) (rate)




[1] Earnings before interest, tax and significant items/average funds

The Annual Shareholders' Meeting of Fletcher Building Limited will be held in the Level 4 Lounge, South Stand, Eden Park, Reimers Avenue, Auckland on Tuesday, 21 October 2014.

**Further information online**
Details on Fletcher Building, its governance policies, and its operations for the year ended 30 June 2014 can be viewed on the Fletcher Building website at
**fbu.com/investor-centre/governance**
This website contains all news releases to the NZX, ASX and other financial presentations made by the company.

**Shareholder communications**
The company is not required to send printed copies of the annual report and half year review to shareholders. Instead, Fletcher Building sends an annual review which is a summary of the company's operational and financial activities for the year, although holders can view the reports on the company's website.
In addition, they have a right to receive a copy of these reports on request.

**Shareholder enquiries**
Changes of address, payment instructions and investment portfolios can be viewed and updated online:
**computershare.co.nz/investorcentre**

Enquiries may be addressed to the Share Registrar, Computershare Investor Services:

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