Fletcher Building

BUILDING FLETCHER'S FUTURE

◂ **Mark Adamson** CEO & Managing Director

This past year Fletcher Building has once again encountered mixed economic conditions. In contrast to the past four years, this year we experienced a strong improvement in market conditions in New Zealand, and a marked deterioration in activity levels in Australia.

In this context, it is pleasing to report that we have delivered operating earnings within the guidance range provided to the market last year and that this has been achieved at the same time as a number of restructuring initiatives have been undertaken.

$326 million ▲

TOTAL NET EARNINGS for the 2013 financial year.

34c

PER SHARE DIVIDEND for the 2013 financial year.

6.80 ▼

TOTAL RECORDABLE INJURY – Frequency Rate (TRIFR).

Financial performance

Net earnings for the year to 30 June 2013 were $326 million, compared with $185 million in the 2012 financial year. As the prior year's result included significant items totalling $132 million after tax, prior year net earnings before significant items were $317 million. Net earnings before significant items were 3 percent higher than for the prior year.

Operating earnings (earnings before interest and tax) were $569 million compared with $403 million achieved in the prior year, and prior year operating earnings before significant items of $556 million.

A highlight of this year's result was cashflow from operations, which was 25 percent higher at $559 million. This was driven by stronger cash contributions from the Construction, Building Products and Distribution divisions.

Consistent with our increased focus on cash management, capital expenditure for the 2013 financial year was $246 million, down from $353 million in the previous year.

As a result of the increase in operating cashflow and lower capital expenditure levels, the balance sheet was strengthened during the year with net debt declining by $283 million.

The total dividend for the year is 34 cents per share, consistent with what was paid in the prior year. This represents a pay-out ratio of 71 percent, a level we are comfortable with given this year's strong operating cashflow and the strength of the balance sheet.

Shareholder return

Total shareholder return for the year to 30 June 2013 was 50.5 percent, driven principally by a resurgent share price. A year ago we noted the negative investor sentiment towards the building materials sector that had resulted in disappointing returns to shareholders. This year's very strong outcome reflects the sharp change in the view of investors towards our sector, with most building materials and products companies in Australia experiencing similarly strong share price appreciation.

Repositioning for the future

Over the past year, we have undertaken a thorough review of Fletcher Building's strategy and operating model. We have identified a number of opportunities where, by making changes to the decentralised operating model, further efficiency gains and operational improvements can be effected. These initiatives have been grouped together under the project name FBUnite.

We want to retain the best aspects of our decentralised business model, with businesses working close to their customers and being focused on their product and market segments. At the same time we want to harness the collective strength of the Fletcher Building group to reduce costs and more efficiently deliver supporting and enabling services to our businesses. This will ensure that our businesses remain competitive in the face of strong domestic currencies and increased competition from local manufacturers and imports.

A further priority over the past year has been to undertake a broad strategy review. This review has led to several new areas of exploration within the FBUnite programme looking at:

- how we can harness digital technologies to further drive revenues and make it easier for customers to interact with us;
- future opportunities in our distribution activities across Australia and New Zealand;
- other growth opportunities for expansion in adjacent products or industries.

Delivering in Canterbury

This past year has been one of considerable progress in our role as project manager for the Canterbury Home Repair Programme. In June we reached an important milestone with the completion of 40,000 full scope home repairs – marking the halfway point in the home repair programme. We expect repairs to the final Earthquake Commission (EQC) referred property will be completed in December 2014 which is well ahead of the original target set.

With this achievement, our attention is turning to ensuring that we are able to transition our people involved with the home repair programme to larger commercial construction projects and other parts of our business as the residential repair workload decreases. Their skills will be invaluable to the work that remains to be done in Canterbury.

Looking ahead

While implementing FBUnite is a key priority for us over the next few years, we will continue to work on strengthening and extending our core positions across New Zealand and Australia. We believe there will be good opportunities across our markets for further organic growth through our existing businesses and that we can also drive internal efficiencies and improve our cost competitiveness. At the same time, we will continue to seek opportunities to extend core positions in New Zealand and Australia through infill and adjacent acquisitions, along with opportunities to leverage existing assets and capabilities in selected new markets.

'We believe there will be good opportunities for further organic growth, and to improve our cost competitiveness.'

Beyond Australia and New Zealand, we will seek to build and enhance positions in select products and geographies where we believe we have proven capabilities that can be leveraged successfully.

▴ **Ralph Waters**
Chairman of Directors

In terms of the earnings outlook for the 2014 financial year, a sustained improvement in activity levels in New Zealand coupled with operational efficiency gains should drive earnings growth. However, no significant volume growth is forecast in the Australian market and any further deterioration from current levels will temper earnings momentum elsewhere across the group.

Ralph Waters
Chairman of Directors

Mark Adamson
CEO & Managing Director

Infrastructure Products

▲ **Mark Malpass** (right)
Chief Executive Infrastructure Products, at Golden Bay Cement

'Further restructuring was carried out this year to reorganise businesses into logical, larger business units.'

Infrastructure Products operating earnings increased by $13 million to $222 million as a result of continued operational improvements, cost reduction and efficiency gains in all key areas of the business. Significant divisional restructuring was carried out this year, with businesses being reorganised into logical, larger business units.

▲ **Rocla Pipeline Products**
Melbourne

Revenues were 9 percent lower primarily due to the sale of the Austral Wright metals business in June 2012. On a like-for-like basis, revenues decreased by 2 percent while market shares were largely stable for all businesses.

Operating earnings of the Cement, Concrete and Aggregates businesses increased by 6 percent and the Concrete Pipes and Products businesses recorded a 10 percent increase in operating earnings. Operating earnings in Iplex and Crane Copper Tube were lower, with Australian volumes down by 4 percent due to weaker mining demand and continued soft building markets, partially offset by contracts to supply coal seam gas projects. Steel operating earnings were up strongly on the prior year.

Building Products

▲ **Tim Richards** (right)
Chief Executive Building Products, at Pacific Coilcoaters

'A key priority is to continue the business efficiency initiatives particularly in Australia where volumes and margins remain soft.'

Building Products operating earnings before significant items of $122 million were 12 percent higher than the prior year. Revenues declined by 3 percent but the benefit of cost reduction initiatives positively impacted earnings.

The plasterboard business recorded increased operating earnings in a stronger New Zealand residential construction market. The insulation business' operating earnings before significant items were down 36 percent on the prior year. Australian glasswool margins continue to be soft due to the strong Australian dollar and continued excess inventory

▲ **Stramit**
Sydney

across the industry. New Zealand glasswool volumes were flat on the prior year reflecting increased levels of competition and a warmer autumn.

Operating earnings for the coated steel businesses were up 7 percent due to strong performances from the New Zealand based businesses. Roof tile volumes increased due to strong increases in Europe, Africa and New Zealand. In Australia, volumes in the Stramit roll-forming business were down on the prior year.

Laminates & Panels

▲ **Paul Zuckerman** (left)
Chief Executive Laminates & Panels, at Laminex

'The continued promotion and extension of premium products helped mitigate price pressure.'

Formica's operating earnings before significant items were $58 million, down from $71 million in the prior year. Volumes and revenue in Europe were down by 5 percent. Revenue in Asia was down by 2 percent with volumes down in China and Taiwan by 2 percent and 3 percent respectively, while Thailand remained stable. In North America revenue was up by 1 percent while volumes were up marginally over the prior year. Continued improvement in the residential sector was largely offset by the weak commercial market.

Laminex's operating earnings before significant items were

▲ **Formica**
London

$62 million compared with $68 million in the prior year. Australian revenue was down 9 percent, driven by a slowdown in the building and construction market, with increased new residential commencements off-set by declines in the housing renovation and commercial sectors. Sales volumes were maintained but there was significant pressure on product pricing and margins throughout the period.

Distribution

▲ **Tim Hickey** (right)
Chief Executive Distribution Australia, at Mico

'PlaceMakers revenues rose 9 percent with market conditions showing improvement from the second quarter onwards.'

PlaceMakers revenues rose 9 percent with market conditions showing improvement from the second quarter onwards. Operating earnings increased by 33 percent with the increase in revenues more than offsetting the

▲ **Tradelink**
Brisbane

margin decline of almost 1 percent. Earnings were positively impacted by operational improvements, and inventory and working capital ratios improved on the prior year.

Mico Plumbing revenues were down 18 percent due to the sale of the Corys Electrical business with effect from December 2012. On a like-for-like basis, revenues increased by 3 percent over the prior year driven by improved economic activity and market share gains in the plumbing segment.

Australian revenues declined 11 percent due to difficult trading conditions. Tradelink revenues fell sharply in the second and third quarters of 2013 but began to improve in the final quarter as branch improvement programmes targeting improved service levels to customers were implemented.

Construction

▲ **Graham Darlow** (right)
Chief Executive Construction, at ASB headquarters

'After a long period of weak demand in civil infrastructure and commercial building, a steady improvement is expected.'

The Construction division's operating earnings for the year were $87 million, up by 74 percent on the prior year. This was due to a significant upturn in house sales and increased activity in Christchurch, particularly

▲ **Tunnel Boring Machine**
For Waterview Auckland Project

with the Canterbury Home Repair Programme and the infrastructure rebuild.

The Construction backlog was $1,022 million at the end of June. Fletcher Construction is also the preferred bidder on the MacKays to Peka Peka roading project north of Wellington ($570 million) and the Wynyard land development proposal is preferred for Fonterra's new Head Office in Auckland ($70 million).

Fletcher Residential performed very well with strong sales from the Stonefields development in Auckland. Large land holdings have also been secured in the Auckland region for future building activity. There is now a strategy to extend housing operations to include multi-storey and affordable homes in Auckland and elsewhere.

FBUnite launched during the year.

The FBUnite business transformation programme seeks to drive benefits across Fletcher Building from greater collaboration, combining resources and leveraging the group's scale, improving operating efficiency, and investing in the capabilities for growth.

It is expected that annual total benefits from FBUnite will be in the range of $75 million to $100 million per annum. Individual work streams will be completed within different timeframes, and these benefits will take several years to be fully realised.

A number of work streams have commenced within the business transformation programme including:

Shared Services aims to reduce the cost of core support functions through centralising transactional tasks and increasing productivity by leveraging the group's scale. The project is targeting finance (accounts receivable, accounts payable, credit management), human resources (payroll, recruitment, learning and development, health and safety) and ICT (user support, IT maintenance and IT infrastructure).

The **Procurement** project is focussed on achieving greater procurement co-ordination and cost savings from the $800 million per annum of indirect third party expenditure across the group. A specialist procurement function has been established leveraging the group's size, experience and leading practice.

The group's total **Property** costs across New Zealand and Australia are in excess of $200 million per annum from around 1,000 property interests. The goal over time is to reduce the group's property footprint through network optimisation and business co-location opportunities.

The **Operations excellence** programme is addressing manufacturing and supply chain aspects of Fletcher Building's manufacturing and warehouse facilities. The programme is expected to take around 3 years to be fully implemented, in conjunction with other work streams including procurement and property management.

The **Network optimisation** project will identify, evaluate and implement options to move products from the point of manufacture or supply to the customer at the lowest cost, while meeting service requirements.

$75m-100m

Annual total benefits from FBUnite are expected to be in the range of $75 million to $100 million.

Nick Olson (left) Chief Financial Officer and **Gerry Bollman** (right) Chief Executive – Business Strategy and Performance, at Fletcher Building Head Office

Passing the halfway mark in Canterbury repairs.

In the past financial year we have made considerable progress in Canterbury, primarily through Fletcher EQR's role as project manager for the Canterbury Home Repair Programme (CHRP).

In June the halfway point in respect of full-scope house repairs was reached, with 40,000 homes now complete.

Larger, more complex repair jobs are now increasing as a proportion of total work, and at the current rate of progress Fletcher EQR will complete management of the Earthquake Commission's last referred repair by December 2014.

A key priority going forward is to ensure we facilitate opportunities for Fletcher EQR's highly-skilled employees to transition from the home repair programme to larger commercial construction projects and other parts of our business as and when the residential repair workload decreases.

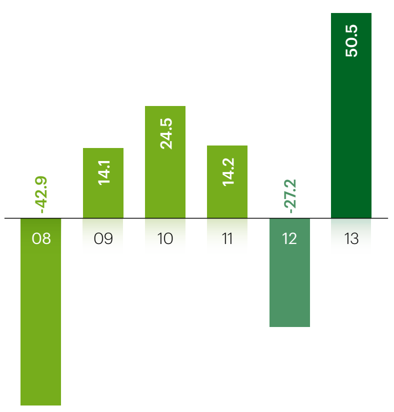
> 'Their skills are invaluable considering the work still ahead in Canterbury.'

Our investment in the region also continued throughout the year, with Fletcher Aluminium and Firth both opening new production facilities in Christchurch and PlaceMakers opening a new store in the suburb of Hornby.

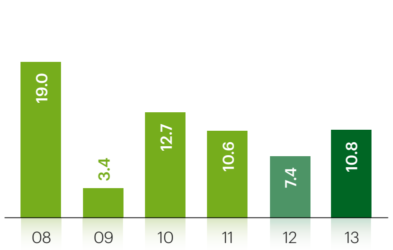
Our involvement in the community was highlighted through our significant sponsorship of the University of Canterbury Quake Centre, established to lead earthquake engineering research, related training and education and product development, which will undoubtedly have benefit much further afield than Canterbury and New Zealand.

Financial snapshot

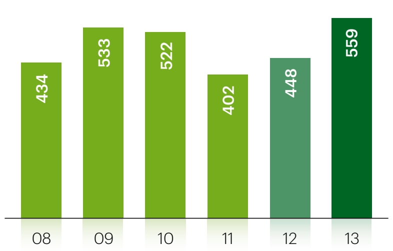
Total shareholder return (percentage)



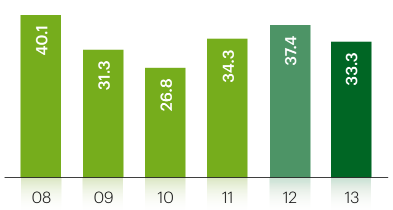
Return on funds (percentage)



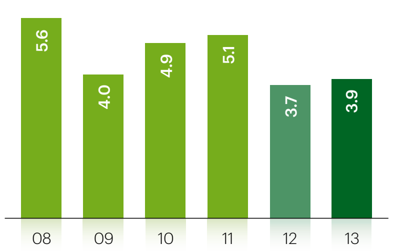
Operating cashflow ($million)



Gearing (percentage)



Interest cover (times)



▲ Golden Bay Cement's sponsorship of the Limestone-Matakohe Island restoration project dates back to 1998. In May 2013 it marked a milestone, with the 100th Kiwi chick raised on the Island to repopulate the mainland, welcomed to its new home at Whangarei Heads.

Our Journey

Over the past year we have continued to improve in our key areas of sustainability, namely environment, health and safety and diversity.

Meeting our target of reducing group carbon emissions intensity by 5 percent between 2007 and 2012 was a significant achievement in the past year. A 5 percent reduction was achieved through manufacturing process, technology and input material improvements, as well as the increased use of alternative, lower-emissions energy sources. Our goal now is to further reduce emissions intensity by 10 percent between 2012 and 2020.

In September 2012 we partnered with the New Zealand Energy Efficiency and Conservation Authority (EECA) to identify and implement energy reduction initiatives across our New Zealand operations. Audits and improvements have been made at nine sites including Pacific Steel and Laminex Hamilton, with significant emissions and energy cost reduction achieved. In Australia a new Energy Efficiency Assessment Plan was established and approved under the EEO legislation.

In the past year a range of health and safety education programmes have been launched across the group and our rolling Total Recordable Injury Frequency Rate (TRIFR) continues to decline – down to 6.80 from 8.48 in 2012. External process-safety audits of our high-risk manufacturing sites continued throughout the year, with our primary focus being minimising the risk of significant injuries and fatalities. We are now further integrating health and safety into daily operational procedures to ensure it is considered in every process and decision.

As an employer of 18,830 people, we have also in the past year invested significantly in learning and development initiatives and in improving diversity across the group. In New Zealand we have provided employment opportunities for 62 people through partnerships with Te Puni Kōkiri, Limited Services Volunteer, Work and Income and the Department of Corrections. A focus on increasing the number of females employed in key areas of the business, including branch management and engineering, continues.

Alongside targeted recruitment initiatives, our suite of learning and development initiatives have been greatly improved, with attracting and retaining highly-skilled and experienced leaders a priority.

Dividend information

34c per share

Total dividend for financial year 2013.

17c per share

Final dividend.

17c per share

Interim dividend.

Record and payment dates

The dividend will be paid on 16 October 2013 to holders registered at 5.00pm Friday 27 September 2013 (NZT). The shares will be quoted on an ex-dividend basis from 23 September 2013 on the ASX and 25 September 2013 on the NZX.

Dividend Reinvestment Plan

Fletcher Building shareholders (excluding those in jurisdictions where the issue of shares is not permitted by law) can participate in a Dividend Reinvestment Plan, under which they have the opportunity to reinvest their dividends in additional shares. The Dividend Reinvestment Plan will be operative for this dividend payment. There will be no discount to the price applied to ordinary shares issued. Documentation for participation is available from the share registry or the website **fbu.com** and must be received by the registry before the record date of Friday 27 September 2013.

The price used to determine entitlements under the Plan is the average of the individual daily volume weighted average sale prices of price-setting trades of the company's shares sold on the NZX on each of the five business days from and including the NZX ex-dividend date of 27 September 2013. The new shares will rank equally with existing shares and will be issued on the dividend payment date of 16 October 2013. To participate, please contact the share registry.

Investor information

Annual shareholders' meeting

The Annual Shareholders' Meeting of Fletcher Building Limited will be held in the Level 4 Lounge, South Stand, Eden Park, Reimers Avenue, Auckland on Wednesday 16 October 2013.

Further information online

Details on Fletcher Building, its governance policies, and its operations for the year ended 30 June 2013 can be viewed on the Fletcher Building website at **fbu.com**. 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.

Directory

Shareholder enquiries

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

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

New Zealand
Computershare Investor Services Limited
Private Bag 92 119
Auckland 1142
New Zealand

Level 2, 159 Hurstmere Road
Takapuna, North Shore City 0622
New Zealand

T. +64 9 488 8777
F. +64 9 488 8787
E. enquiry@computershare.co.nz

Australia
Computershare Investor Services Pty Limited
GPO Box 3329
Melbourne, VIC 8080
Australia

Yarra Falls, 452 Johnston Street
Abbotsford, VIC 3067
Australia

T. 1800 501 366 (within Australia)
T. +61 3 9415 4083 (outside Australia)
F. +61 3 9473 2009

Other investor enquiries

Fletcher Building Limited
Private Bag 92 114
Auckland 1142
New Zealand

T. +64 9 525 9000
F. +64 9 525 9032
E. moreinfo@fb.co.nz

Other information

fbu.com

Registered offices

New Zealand
Fletcher Building Limited
Private Bag 92 114
Auckland 1142
New Zealand

Fletcher House
810 Great South Road
Penrose, Auckland 1061
New Zealand
T. +64 9 525 9000

Australia
Fletcher Building Australia
Locked Bag 7013
Chatswood DC 2067
NSW 2067
Australia

Level 11, Tower B, Zenith Centre
821 Pacific Highway
Chatswood, NSW 2067
Australia
T. +61 2 8986 0900
ARBN 096 046 936