Fletcher Building

**News Release**

STOCK EXCHANGE LISTINGS: NEW ZEALAND (FBU), AUSTRALIA (FBU).

# FLETCHER BUILDING LIMITED
# FINANCIAL RESULTS FOR THE YEAR ENDED 30 JUNE 2012

Auckland, 22 August 2012 – Fletcher Building today reported net earnings of $185 million for the year ended 30 June 2012, compared with $283 million in the 2011 financial year. The result included restructuring and impairment charges totalling $132 million after tax. Net earnings before restructuring and impairment charges were $317 million, 12 per cent lower than the prior year.

Operating earnings (earnings before interest and tax) were $403 million, 18 per cent lower than the $492 million achieved in the prior year, while operating earnings before restructuring and impairment charges were $556 million, 7 per cent lower than for the prior year.

Restructuring and impairment charges included $38 million in costs incurred in restructuring the Laminex business, $20 million of closure costs for the Formica plant in Bilbao, Spain, and a $74 million reduction in the carrying value of the insulation business in Australia.

Cashflow from operations was $448 million, 11 per cent higher than for the prior year, driven by stronger cash contributions from Formica and the Crane, Construction and Steel divisions.

A final dividend of 17.0 cents per share will be paid on 17 October 2012, with full New Zealand tax credits attached, bringing the total dividend for the year to 34.0 cents per share.

Chief Executive Officer Jonathan Ling said the result was driven by low volumes in the group’s core markets of New Zealand and Australia.

“Weak building activity in New Zealand coupled with a marked slowdown in residential and commercial construction in Australia have resulted in lower earnings being achieved compared to last year”, Mr Ling said.

“In the past year in New Zealand we continued to experience very low levels of new house building. Coupled with the on-going disruption to rebuilding in Canterbury from further earthquakes, weak commercial construction activity, and a slowdown in infrastructure spending, we’ve endured a very tough year in our New Zealand businesses.

“In Australia, the pace of activity in residential and commercial construction slowed throughout the year and materially impacted our businesses exposed to these sectors,” Mr Ling said.

“Additionally, the high Australian dollar has adversely affected a number of our businesses with imports negatively impacting volumes and eroding margins,” Mr Ling said.

Despite the reduction in group earnings, operating earnings in the Concrete division were up $5 million to $130 million. Within the Laminates & Panels division, Formica’s operating earnings before restructuring and impairment charges were up 27 per cent to $71 million. Crane, which was acquired in March 2011, delivered operating earnings of $106 million in its first full year of ownership.

“We were very pleased with the first full years’ contribution from Crane, achieved despite the weakness in the Australian residential market. The Concrete division increased earnings from its Australian businesses due to the strength of the infrastructure sector and improved operational performance. Formica continued to deliver improved operating earnings through growth in its Asian business and from improved economic conditions and operating performance in North America,” Mr Ling said.

As announced in February 2012, a review of Laminex was undertaken to determine how to achieve a step change in its cost structure. Restructuring costs of $38 million after tax were incurred in the Laminex business during the year, with $15 million incurred in the first half. In addition, following the announcement in June of the consolidation of Formica’s manufacturing operations in Spain, $20 million was incurred in closure costs for the plant in Bilbao.

During the year, a strategic review of the insulation business was completed. While it has been decided to retain the business, the outcome of the review highlighted that medium term earnings prospects have deteriorated. This has necessitated a reduction in the carrying value of the business through a write down of goodwill, a write-off of stock, and a reduction in the value of its brands, totalling $74 million after tax.

**Results overview**

Comparisons are with the prior financial year ended 30 June 2011.

| | |
|---|---|
| **Revenue** | $8,873 million, up from $7,416 million<br>Includes first full year's trading from Crane |
| **Net earnings** | $185 million, down from $283 million |
| **Net earnings before restructuring and impairment charges** | $317 million, down from $359 million |
| **Operating earnings** | $403 million, down from $492 million |
| **Operating earnings before restructuring and impairment charges** | $556 million, down from $596 million |
| **Cashflow from operations** | $448 million, up from $402 million |
| **Basic earnings per share excluding restructuring and impairment charges** | 46.5 cents per share, down from 57.1 cents |
| **Interest cover excluding restructuring and impairment charges** | 3.7 times, down from 5.1 times |
| **Final dividend** | 17.0 cents per share with full New Zealand tax imputation credits.<br>Total dividend for the year 34.0 cents per share<br>The dividend reinvestment plan will be operative for the final dividend payment |

For further information please contact:

Philip King
General Manager Investor Relations
Phone: + 64 9 525 9043
Mobile: + 64 27 444 0203

**ENDS**

## FINANCIAL RESULTS FOR THE YEAR ENDED 30 JUNE 2012

| Results | Revenues | |
|---|---|---|
| **NZ$ Million Year ended** | **June 2012** | June 2011 |
| Building Products | **670** | 692 |
| Concrete | **958** | 912 |
| Construction | **1,040** | 1,140 |
| Crane | **2,393** | 623 |
| Distribution | **813** | 856 |
| Laminates & Panels | **1,849** | 1,979 |
| Steel | **1,150** | 1,214 |
| Corporate | **0** | 0 |
| **Group Total** | **8,873** | **7,416** |

| Results | Reported earnings | | Earnings before restructuring and impairment charges | |
|---|---|---|---|---|
| **NZ$ Million Year ended** | **June 2012** | June 2011 | **June 2012** | June 2011 |
| Building Products | **(7)** | 31 | **72** | 111 |
| Concrete | **130** | 125 | **130** | 125 |
| Construction | **50** | 60 | **50** | 60 |
| Crane | **106** | 11 | **106** | 29 |
| Distribution | **27** | 39 | **27** | 39 |
| Laminates & Panels | **65** | 159 | **139** | 168 |
| Steel | **48** | 83 | **48** | 83 |
| Corporate | **(16)** | (16) | **(16)** | (19) |
| **Operating earnings** | **403** | 492 | **556** | 596 |
| Funding costs | **(152)** | (122) | **(152)** | (118) |
| Earnings before taxation | **251** | 370 | **404** | 478 |
| Taxation | **(58)** | (79) | **(79)** | (111) |
| **Earnings after taxation** | **193** | 291 | **325** | 367 |
| Minority interests | **(8)** | (8) | **(8)** | (8) |
| **Net earnings** | **185** | 283 | **317** | 359 |

Net earnings were $185 million for the year, compared with $283 million in the 2011 financial year. The result included restructuring and impairment charges totalling $132 million after tax. These included $38 million in costs incurred in restructuring the Laminex business, $20 million of closure costs for the Formica plant in Bilbao, Spain, and a $74 million reduction in the carrying value of the insulation business in Australia. Net earnings before restructuring and impairment charges were $317 million, 12 per cent lower than the prior year.

Operating earnings (earnings before interest and tax) were $403 million, 18 per cent lower than the $492 million achieved in the prior year. Operating earnings before restructuring and impairment charges were $556 million, 7 per cent lower than for the prior year.

Cashflow from operations of $448 million was up 11 per cent, driven by stronger cash contributions from Formica and the Crane, Construction and Steel divisions.

Total group revenues of $8,873 million were 20 per cent higher due to the inclusion of a full year of Crane revenues versus only three months in the 2011 financial year.

The result reflected the difficult trading environments in the group’s core markets of New Zealand and Australia. In New Zealand, activity levels in residential and commercial construction continued to be depressed. Further seismic activity disrupted rebuilding work in Canterbury, and there was a slowdown in infrastructure spending.

In Australia, residential and commercial construction activity continued to slow throughout the year, and the high Australian dollar adversely impacted businesses exposed to import competition.

Despite the challenging economic climate, a number of businesses reported improved results. Crane had operating earnings of $106 million in its first full year of ownership. The Concrete division increased its earnings from its Australian operations due to the strength of the infrastructure sector and improved operational performance. Formica continued to deliver improved operating earnings, through growth in its Asian business and from improved economic conditions and operating performance in North American.

Directors have approved a final dividend of 17.0 cents per share. With the interim dividend of 17.0 cents, this brings the total dividend for the year to 34.0 cents per share, up from 33.0 cents in the previous year. The final dividend will be paid on 17 October 2012. The final dividend will carry full New Zealand imputation credits but will be unfranked for Australian tax purposes.

Earnings per share were 27.2 cents compared with 45.0 cents in the prior year. Earnings per share excluding restructuring and impairment charges were 46.5 cents, compared with 57.1 cents in the previous year.

## OPERATIONAL REVIEW

### Building Products

The Building Products division reported an operating loss of $7 million compared with operating earnings of $31 million in the prior year. Operating earnings excluding restructuring and impairment charges were $72 million, down 35 per cent on the $111 million earned in the prior year.

Operating earnings for the New Zealand plasterboard business were down 35 per cent, although this was principally due to a gain from the sale and leaseback of the Auckland manufacturing site recorded in the prior year. Adjusting for this, operating earnings were 10 per cent lower.

Operating earnings before restructuring and impairment charges for the insulation businesses were down 56 per cent. This was primarily due to the continued industry-wide over-supply of insulation products and the impact of the strong Australian and New Zealand currencies on the competitiveness of imported product.

Following a strategic review of the Australian insulation business completed during the year, an unusual item totalling $74 million after tax was incurred due to the write-down of goodwill, the write-off of stock and a reduction in the value of its brands.

The commercial insulation and ceiling and wall systems business recorded lower operating earnings. A $3 million gain on the sale of the Australian access flooring business was recorded during the year.

Operating earnings for the roof tiles business were down 24 per cent, principally due to the effect of the strong New Zealand dollar on foreign currency receipts. Volumes were up in Africa and the US, flat in Asia, and down in New Zealand and European markets. Pricing improved over the period, while overheads were up due to continued investment in product and market development.

In the sinkware and aluminium businesses, operating earnings were down 32 per cent on the prior year. In aluminium, reduced domestic and export market volumes were partly offset by improved pricing and lower input costs.

### Concrete

Operating earnings increased by $5 million to $130 million as a result of continuing operational improvements, cost reductions and efficiency gains in all key areas of the business.

Operating earnings from the New Zealand operations were $56 million, the same as the prior year. Earnings from quarry end-use and surplus land sales were $7 million compared to $1 million in the prior year. Revenues were up 3 per cent with most product volumes similar or slightly stronger except cement and masonry. Market share for all core products was stable.

Operating earnings from the cement business declined by 19 per cent. Cement volumes were 5 per cent lower although market share was maintained. Export volumes and prices were below last year. Increased use of wood waste reduced production costs and greenhouse gas emissions.

Aggregates volumes were similar to last year but pricing was softer and quarry margins declined by 8 per cent. Despite this, operating earnings increased due to productivity improvements and growth in resource recovery operations. Plans are underway to increase capacity in Christchurch.

Readymix and masonry operating earnings increased over the prior year. Readymix concrete volumes were similar to the prior year and masonry volumes were down 10 per cent. Lower prices and margins were more than offset by profit improvement initiatives. Work is underway on a third concrete batch plant in Christchurch.

Concrete pipe and precast volumes were similar to the prior year but demand for other products was weaker. In September 2011 Oasis Clearwater Environmental Systems and Austin Pipe Concepts were acquired and are expected to aid earnings growth as the rebuild of Christchurch gains momentum.

In Australia, the pipeline and quarry businesses performed well with combined operating earnings increasing by $5 million to $74 million. This was a significant improvement given the previous year's result included a $5 million gain from a land sale.

The pipeline products business now includes Australian Construction Products and Atlantic Civil Products, acquired in January 2012. In addition to the earnings from these two businesses, a range of pricing initiatives and operational enhancements increased earnings. The business maintained market shares in its core products.

The quarry business in Australia recorded a strong result benefiting from a favourable sales mix and improved margins. A range of pricing and productivity initiatives were implemented. In June a 50 per cent share in a number of mining tenements in Western Australia was acquired which are ideally placed to provide materials to the expanding mining industry in the Pilbara region.

**Construction**

The Construction division's operating earnings for the year were $50 million, down 17 per cent on the prior year.

The construction backlog was $1,094 million at the end of June. This compares to a backlog of $764 million at the same time last year. In addition the company is the preferred contractor on two further contracts. It is part of the consortium which was awarded preferred bidder status on the Wiri Prison project under a publicprivate partnership arrangement, and is also the preferred bidder on the two roading projects which are part of the New Zealand government's Roads of National Significance initiative. If these two contracts proceed they would add a further $837 million to the backlog, but would have no significant earnings impact until the 2014 financial year.

Major contracts won during the year include the Waterview Alliance in Auckland with the Fletcher share of work being $398 million, Auckland Metropolitan Eastern Transport Interchange for $100 million, and the ANZ Centre refurbishment in Auckland for $65 million. Activity levels on the alliance to repair the Christchurch infrastructure, of which Fletcher Construction is one of five contractors involved, have been slower than expected.

Earnings from residential house sales were up 35 per cent on the prior year as a result of increased house sales. This has been due to an improved sales mix predominantly in the Stonefields development in Auckland which continues to attract strong interest.

Activity levels as project manager for the Earthquake Commission have increased significantly with 21 hubs established to carry out home repairs compared with only 5 hubs operating at the same time last year. There are now over 1,100 accredited contracting companies, which have delivered in excess of 20,000 home repairs, over 45,000 emergency repairs and 16,400 winter heat installations. The Canterbury Home Repair Programme is due to have completed the last of the 100,000 repairs by the end of 2015.

**Crane**

Crane was acquired during 2011 and consolidated as from 28 March 2011. The financial results for the prior year are for the full 12 months for comparative purposes only. The actual result for the 2011 financial year included operating earnings for the three months that the company was owned by Fletcher Building.

Operating earnings were $106 million, 14 per cent ahead of 2011 earnings of $93 million, on revenues of $2,393 million.

Pipelines recorded a 31 per cent increase in operating earnings to $59 million, with gross revenues 17 per cent higher than the prior year. Australian revenues increased 20 per cent, with significant increases from the mining sector due to the two coal seam gas projects won in Queensland. Demand from the resources, civil and rural sectors off-set the decline in building activity. In New Zealand revenues were flat year on year, however, earnings improved by 19 per cent due to the implementation of cost reduction initiatives.

Trade distribution gross revenues fell by 6 per cent in Australia and remained flat in New Zealand. In Australia, flat to declining activity in residential and commercial building was the key reason for the 31 per cent decline in operating earnings to $37 million. Increased revenues from the resources sector partly offset the effects of the residential decline in Australia. In New Zealand, trading conditions remained difficult, although the South Island demand improved, and the business traded around breakeven.

Gross revenues in the Industrial Products businesses declined by 16 per cent to $316 million. Operating earnings were slightly higher at $11 million with the implementation of cost and productivity improvements offsetting general declines in the manufacturing sector. At year end, the Austral Wright Metals and Mico Metals businesses were sold. It is anticipated that, including collection of the businesses' trade debts, the sale will realise approximately NZ$70 million. Proceeds from the sale will be received in the 2013 financial year. With this divestment, the remaining business is now focused on ensuring competitive supply of copper tube into the distribution businesses and other markets.

**Distribution**

PlaceMakers' revenues were 5 per cent lower than the prior year's at $813 million, with operating earnings declining by 31 per cent to $27 million. Earnings were impacted by the low level of residential house building and increased competitor activity which combined to negatively impact gross margins, particularly in the second half of the year. Despite the competitive intensity, market shares were maintained across most regions. Continued improvement in operational performance resulted in costs declining by 2 per cent, and inventory down by 8 per cent at year end.

Restructuring was undertaken during the year to align the branch network to trading conditions, with the closure of 3 branches and other branches relocated to optimise their appeal to trade customers. The frame and truss manufacturing businesses were reorganised during the year to create greater organisational focus on cost and quality, and two manufacturing sites were also closed.

**Laminates & Panels**

Operating earnings in the Laminates & Panels division were $65 million, down by $94 million or 59 per cent on the $159 million earned in the prior year. Restructuring and impairment charges of $74 million were incurred during the year, of which $54 million related to restructuring in Laminex, and $20 million to closure costs of the Formica plant in Bilbao, Spain. Operating earnings excluding restructuring and impairment charges were $139 million, down 17 per cent on the $168 million earned in the prior year.

Formica's operating earnings before restructuring and impairment charges were $71 million, 27 per cent higher than the $56 million earned in the prior year. The improved result was due to ongoing operational improvements and efficiency gains plus increased revenue in North America and Asia.

Reported revenues were 4 per cent lower due to the appreciation of the New Zealand dollar; in local currency terms revenues were ahead by 3 per cent.

Volumes in North America were up 5 percent on the prior year with modest improvement in the residential sector, however, the commercial market showed no improvement. Revenues in domestic currencies were up by 4 per cent.

In Europe, volumes decreased by 8 per cent and revenues in local currency terms by 4 per cent. Revenues in Spain were down by 30 per cent and France by 20 per cent, while the UK was unchanged and the Netherlands, Scandinavia and the Baltic regions were up by 7 per cent. Revenue growth was strong in developing markets, up by 17 per cent in Russia, while exports to Africa and the Middle East more than doubled.

In Asia, revenues in local currencies were up 9 per cent while volume was up by 11 percent.

In China, with the current manufacturing site in Shanghai nearing full capacity, the construction of a second high pressure laminate factory in Juijang is underway. The facility is expected to be completed during calendar year 2013.

Prices and margins were generally maintained across all regions and improved in some instances due to the continued promotion and extension of premium products. Input costs were relatively flat or slighter softer. Global paper prices and energy costs were stable, while resin costs were lower.

Laminex's operating earnings before restructuring and impairment charges were $68 million, 39 per cent lower than the $112 million earned in the prior year.

Australian revenues were 9 per cent lower. Demand for lower margin commodity products increased as the business focused on other sectors to mitigate the impact of slowing residential and commercial markets. Pricing initiatives were introduced during the year to recover input cost increases, but the continued decline in market activity made this more challenging as the year progressed.

New Zealand revenues were down by 11 per cent. Following a review of its operations, poorly performing product lines were exited during the year while a selective number of new products were launched.

Input costs including energy, labour and material costs increased during the year. In response, a number of initiatives to lower the operational cost base were implemented. The exit of poor performing and peripheral products, distribution restructuring, reductions in administrative staff and other redundancies resulted in a reduction of 230 employees in Australia and 55 in New Zealand.

During the year a new high speed low pressure laminating line was commissioned. This allowed operations in Queensland to be consolidated at Gympie with the closure of an older plant in Brisbane.

**Steel**

The Steel division recorded operating earnings for the year of $48 million, down 42 per cent on the prior year.

The rollforming and coated businesses in both Australia and New Zealand experienced volume declines over the prior year. Earnings declined 36 per cent to $37 million. Rollforming volumes were particularly soft in Australia. New Zealand volumes were lower than last year but improved in the last quarter of the year. Margins reduced due to price reductions caused by increased competition.

Market conditions in the long steel businesses were extremely difficult resulting in earnings declining 58 per cent to $5 million. Overall volumes were 3 per cent ahead of the prior year. New Zealand domestic volumes were up 20 per cent as a result of market share gains. Margins were lower, with the strength of the New Zealand dollar resulting in lower prices for imported product. Several new seismic grade products specifically designed for New Zealand were released during the year. The high Australian dollar led to intense import competition in the Australian market, resulting in poor margins on long steel exports from New Zealand.

Operating earnings in the distribution and services businesses declined by 54 per cent to $6 million. Earnings from the steel reinforcing business were significantly lower driven by low volumes and increased price competition from imports. The distribution business' earnings also declined during the year. The rising New Zealand dollar had seen prices decline in the first half of the year, but this trend was reversed in the second half of the year with margins improving.

## RESTRUCTURING AND IMPAIRMENT CHARGES

Restructuring and impairment charges (previously referred to as unusual items) totalling $132 million after tax were incurred during the year. These related to costs incurred in restructuring the Laminex business, the closure of the Formica plant in Bilbao, Spain, and reductions in the carrying value of the insulation business in Australia.

In response to the low volumes and margin deterioration in the Laminex business, a review was undertaken during the year to determine how to achieve a step-change in the cost structure of the business. The review addressed the go-to-market model and the profitability of ancillary activities that support the core Laminex product range. Unusual costs associated with the exit of poorly performing and peripheral products, distribution restructuring, reductions in administrative staff and other redundancies totaled $38 million after tax.

At the end of the year the decision was taken to consolidate Formica's two manufacturing plants in Spain, resulting in the closure of Formica's plant in Bilbao. This was in response to significant overcapacity across Formica's two Spanish plants as a result of the decrease in volumes in Spain. A total of $20 million has been provided to cover the one-off costs associated with the closure of the Bilbao plant.

The adjustment to the carrying value of the Australian insulation business follows the strategic review undertaken during the year to determine the future of the business. While the decision has been made to retain the business, the review identified that given the current exchange rate and expected activity levels the medium term earnings expectations have reduced. Consequently, it is considered appropriate to write off the goodwill arising on the acquisition of this business, write down stock and reduce the carrying value of its brands.

A summary of the key restructuring and impairment charges is given below.

| **Year to 30 June 2012**<br><br>**NZ$ Million** | **Restructuring and impairment charges before tax** | **Tax** | **Restructuring and impairment charges after tax** |
|---|---|---|---|
| Laminex restructuring – Australia and NZ | 54 | ( 16) | 38 |
| Formica – Bilbao plant closure | 20 | 0 | 20 |
| Insulation – adjustment to business asset carrying values | 79 | (5) | 74 |
| **Total** | 153 | (21) | 132 |

## CARBON TAX IMPACTS

Under New Zealand's emissions trading scheme, energy suppliers rather than energy users have to buy emissions units and surrender these to the government. Most Fletcher Building businesses do not directly participate in the scheme but are subject to the higher energy costs passed down by energy suppliers. Fletcher Building's cement and steel manufacturing operations are direct participants in the scheme, however, as they emit carbon dioxide in their manufacturing processes. These businesses qualify for relief under the scheme as emissions-intensive, trade-exposed industries, and receive free allocations of emission units to partly offset their increased costs. These allocations mean that the increased energy costs from the scheme for these operations are not material.

The Australian government introduced the carbon price component of its Clean Energy Future Plan in July 2012. Laminex' board manufacturing operations are eligible for free emission units equivalent to 66 per cent of their operational emissions. Other Australian businesses are not directly impacted but additional costs are now being incurred indirectly from an increase in natural gas and electricity costs. Further costs will arise from the carbon price that will be imposed on transport diesel from 1 July 2014. Some recovery of these increased costs through price increases may be possible. It is estimated that the total cost to Fletcher Building of the Australian scheme in the 2013 financial year will be approximately $5 million.

# FINANCIAL REVIEW

## Balance Sheet

The group's gearing[1] at 30 June 2012 was 35.4 per cent compared with 33.8 per cent at 30 June 2011. The gearing figure remains well below the target range of 40 to 50 per cent, and the group will continue to position gearing below the bottom of this range given the volatility in global financial markets.

## Funding

The group had total available funding of $2,928 million as at 30 June 2012. Of this, approximately $782 million was undrawn and there was an additional $168 million of cash on hand. The group has drawn debt facilities maturing within the next 12 months of $381 million, and a further $75 million of capital notes subject to interest rate and term reset. These maturities are more than covered by the undrawn facilities and cash on hand.

## Debt Maturity

The average maturity of the debt is 5 years and the currency split is 52 per cent Australian dollar; 34 per cent New Zealand dollar; 10 per cent US dollar; 3 per cent Euro; and 1 per cent Pounds Sterling.

## Interest Rates

Approximately 67 per cent of all borrowings have fixed interest rates with an average duration of 4 years and a rate of 7.5 per cent. Inclusive of floating rate borrowings the average interest rate on the debt is approximately 6.7 per cent. All interest rates are inclusive of margins but not fees.

Interest coverage[2] for the period was 3.7 times compared with 5.1 times in the previous year. This was due to increased interest costs from the higher debt levels following the acquisition of Crane in March 2011.

## Cashflow

Cashflow from operations was $448 million, up 11 per cent on the $402 million achieved in the prior year. The improvement was due to strong cash flows in Formica and the Crane, Construction and Steel divisions, with working capital in aggregate in line with the previous year.

Capital expenditure for the period was $353 million, up from $307 million in the prior year (excluding the acquisition of Crane). Of this total, $207 million was for stay-in-business capital projects and $148 million was for new growth initiatives, including $86 million for the acquisition of new businesses. The latter included the acquisition of the remaining 50 per cent shareholding in Homapal for $52 million.

---

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

[2] EBIT before restructuring and impairment charges to total interest paid including capital notes interest.

## Dividend

The 2012 final dividend is 17 cents per share. In line with the dividend imputation and franking policy announced in 2011, the final dividend will be fully imputed for New Zealand tax purposes.

A dividend summary is attached illustrating the effect of the New Zealand imputation tax credits on the dividend.

A supplementary dividend is payable to non-New Zealand shareholders and has the effect of removing the cost of New Zealand non-resident withholding tax (NRWT). Non-resident shareholders with a 10% or greater direct shareholding are not eligible to receive supplementary dividends but are exempt from NRWT.

The dividend will not be franked for Australian tax purposes but the effect of the supplementary dividend is the equivalent of a 41 per cent franked dividend for most Australian shareholders. The dividend will be paid on 17 October 2012 to holders registered as at 5.00 pm Friday 28 September 2012 (NZT). The company's shares will be quoted on an ex dividend basis from 24 September 2012 on the ASX and 26 September 2012 on the NZX.

## Dividend Reinvestment Plan

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 www.fletcherbuilding.com and must be received by the registry before the record date of Friday 28 September 2012.

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 following the NZX ex-dividend date of 26 September 2012. The new shares will rank equally with existing shares and will be issued on the dividend payment date of 17 October 2012.

## STRATEGY

Fletcher Building is a portfolio company that creates value through applying its operating model to attractive industry positions in Australian and New Zealand light and heavy building materials markets. This strategy seeks to deliver earnings reliability for the group through geographic and end market diversification.

Over the next few years Fletcher Building aims to grow earnings from the existing portfolio of businesses through operational performance improvements, regardless of economic conditions in each of its core markets. Beyond this, selective opportunities will be sought across Australia and New Zealand for further investment in new businesses, bolt-on acquisitions or through the organic growth of its existing businesses.

Fletcher Building's primary exposure outside Australia and NZ is through Formica. For the next few years the company will continue to focus on opportunities in New Zealand and Australia, and on growing the Formica business particularly in Asia.

## OUTLOOK

The uncertainty and volatility arising from the global financial crisis have made it extremely difficult to provide a clear outlook for Fletcher Building's businesses. The financial performance of the group will depend heavily on how the New Zealand and Australian building and construction sectors perform.

In New Zealand, a continued modest improvement in house building activity is anticipated, assisted by low interest rates and increased new housing construction in Canterbury. Commercial and infrastructure construction levels are not expected to improve materially, although the commencement of several significant infrastructure projects should lift earnings, particularly in the 2014 financial year.

In Australia, the trend in residential construction activity is unclear, with some risk that activity levels will decline further. Commercial construction not associated with the resources and mining sector is likely to remain subdued, while infrastructure expenditure is expected to remain steady.

Trading conditions in North America are expected to remain flat to slightly positive. No recovery is anticipated for Europe overall, although Germany and Scandinavia should remain relatively strong. Continued growth is expected in China and South East Asian countries.

In terms of earnings for the 2013 financial year, a significant increase in earnings from the current level would require a marked improvement in residential and commercial construction levels, particularly in New Zealand and Australia. Operational performance improvement initiatives will continue to be pursued across the group to maximise earnings and cash generation irrespective of the business cycle. A further update will be provided at Fletcher Building's annual shareholder's meeting in November.

| 2012 FINAL DIVIDEND SUMMARY TABLE [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 | 17.0000 | 17.0000 | 17.0000 | 17.0000 |
| NZ imputation credits [2] | 6.6111 | | | |
| NZ supplementary dividend [3] | | 3.0000 | 3.0000 | 3.0000 |
| Australian franking credits [4] | | 0.0000 | 0.0000 | |
| **Gross dividend for NZ tax purposes** | **23.6111** | **20.0000** | **20.0000** | **20.0000** |
| NZ tax (33%) [5] | (7.7917) | | | |
| NZ non-resident withholding tax (15%) [6] | | (3.0000) | (3.0000) | (3.0000) |
| **Net cash received after NZ tax** | **15.8194** | **17.0000** | **17.0000** | **17.0000** |
| Australian tax (46.5% and 15%) [7] | | (9.3000) | (3.0000) | |
| Reduced by offset for NZ non-resident withholding tax | | 3.0000 | 3.0000 | |
| Less Australian franking credit offset [8] | | 0.0000 | 0.0000 | |
| **Net cash dividend to shareholders after tax** | **15.8194** | **10.7000** | **17.0000** | **17.0000** |

**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) The dividend has imputation credits attached at a 28 percent tax rate.

(3) The supplementary dividend is payable to non-New Zealand shareholders and has the effect of removing the cost of New Zealand non-resident withholding tax (NRWT). Non-resident shareholders with a 10% or greater direct shareholding are not eligible to receive supplementary dividends but are exempt from NRWT.

(4) There are no Australian franking credits attached to this dividend and the conduit foreign income component is nil. Consistent with the previously announced policy, Fletcher Building expects to alternately frank and impute successive dividends to the maximum extent possible. This will mean that interim dividends will be fully franked with Australian tax credits, or franked to the maximum extent possible and final dividends will be fully imputed with New Zealand tax credits, or imputed to the maximum extent possible.

(5) For all NZ resident shareholders who do not hold an exemption certificate, resident withholding tax (RWT) is required to be deducted at 5% from the gross dividend which has been credited with imputation credits at 28 percent. Accordingly, for those shareholders, a deduction of 1.1806 cents per share will be made on the date of payment from the dividend declared of 17.0 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 | 20.0000 | 20.0000 |
| plus franking credits | 0.0000 | 0.0000 |
| gross dividend for Australian tax purposes | 20.0000 | 20.0000 |
| Australian tax | 9.3000 | 3.0000 |

(8) This illustration does not purport to show the taxation consequences of the dividend for non-residents of New Zealand or Australia. Shareholders resident in other countries are encouraged to consult their own taxation adviser.