

2018 Tax Transparency Report

Fletcher Building (Australia) Pty Limited



2018 Tax Transparency Report



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I am pleased to present Fletcher Building Australia's Tax Transparency Report in respect of the year ended 30 June 2018. This report has been prepared in response to the Voluntary Tax Transparency Code to which Fletcher Building Australia is a signatory.

The Tax Transparency Code is a set of principles and minimum standards on public disclosure of tax information, developed by the Board of Taxation and endorsed by the Australian Government in the 2016–17 Federal Budget.

Fletcher Building Australia is publishing this report on a voluntary basis as part of our commitment to tax transparency. The report provides detail on the following areas:

- An outline of our Tax Policy, Tax Strategy and Governance policies
- A reconciliation of our Australian and global income tax expense to income tax payable, and disclosure of our effective tax rate
- A breakdown of our tax contribution of both state and federal taxes in Australia
- A summary of our international related party dealings

The information in this report should be read in conjunction with the Fletcher Building Limited 2018 Annual Report.

Bevan McKenzie

Chief Financial Officer - Fletcher Building Group

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Fletcher Building overview

- Fletcher Building Limited (Fletcher Building) is a global manufacturer and distributor of building products and is a construction contractor and residential developer in New Zealand. Fletcher Building is tax resident in New Zealand and listed on both the NZX and ASX.
- Fletcher Building had global revenues in 2018 of \$NZ9.5 billion, earnings before taxation of (\$NZ275) million and reported tax benefit of \$NZ96 million.
- Fletcher Building (Australia) Pty Ltd (Fletcher Building Australia) is Fletcher Building's holding company for its Australian and other international businesses outside of New Zealand.
- The Australian businesses manufacture and distribute high-quality building materials for a broad range of industries across Australia. They employ people at manufacturing, distribution and sales sites across Australia. The businesses manufacture products used to build homes, buildings and infrastructure – including insulation, plasterboard, laminate surfaces, steel roofing, and plastic and concrete piping. The Australian operations span more than 230 retail sites across the country.
- The Australian businesses include Laminex, Iplex Pipelines, Fletcher Insulation, Tradelink, Tasman Sinkware, Stramit, Rocla and Australian Construction Products.

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Tax policy, tax strategy and governance

- Fletcher Building is committed to the highest standards of behaviour and accountability in respect of compliance with all its statutory obligations, including its tax affairs. Our framework of rules, relationships, systems and processes are designed to ensure that we meet best practice standards of governance.
- Fletcher Building formally adopted the OECD's Business Industry Advisory Committee's Statement of Tax Principles for International Business in 2017 to affirm Fletcher Building's commitment to responsible business tax management and in recognition that public trust in the tax system is a vital part of any economy it seeks to operate within.
- Fletcher Building's tax strategy is implemented and governed by its Group Tax Policy. The Group Tax Policy defines the risk parameters that Fletcher Building must operate within. The risk parameters are designed to ensure compliance with relevant tax law, achieve certainty in its reported financial results and manage any reputational risk.
- The fundamental principle on which the risk parameters are based is that Fletcher Building will not enter into any business transaction that is absent commercial rationale and is solely for the purpose of achieving a tax outcome.
- Fletcher Building Australia has recently formally endorsed a comprehensive Tax Risk Management and Governance Framework, encompassing and reaffirming the above principles and policies and formalising responsibilities and reporting requirements.

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Tax policy, tax strategy and governance (continued)

- The Group Tax function is delegated responsibility for managing tax risk within the agreed tax risk parameters. To this end, an internal escalation policy exists for referring matters to Group Tax for review and it is Group Tax's function to ensure that its business operations comply with the following tax planning principles:
 - Fletcher Building should interpret the relevant tax laws in a reasonable way, consistent with a relationship of 'co-operative compliance' with tax authorities.
 - Fletcher Building should seek to maintain positive relationships with Tax Authorities, founded on respect for each other's integrity and regular dealings that are open, honest and transparent.
 - Fletcher Building should work collaboratively with tax authorities to achieve early agreement on disputed issues and certainty on a real-time basis, wherever possible.
 - Fletcher Building may respond to tax incentives and exemptions.
 - Fletcher Building should only engage in tax planning that is aligned with and supports the commercial and economic activities of the business and does not lead to an abusive result.
- The Group General Manager – Taxation regularly reports to the Audit and Risk Committee on key tax risks and other material matters.
- Further details on our approach to corporate governance in general can be located at <https://fletcherbuilding.com/investor-centre/corporate-governance/>

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Reconciliation of accounting profit to income tax paid

	Australia Tax Consolidated (A\$m)	Fletcher Building Group (NZ\$m)
Accounting profit/(loss) before tax	21.1	(274.7)
Prima facie tax expense	6.3	(76.9)
<i>Adjusted for:</i>		
Tax in respect of prior years	(1.1)	2.1
Non-assessable income	(9.2)	(26.9)
Tax losses for which no deferred tax asset was recognised		5.3
Utilisation of previous unrecognised tax losses	(3.6)	(4.3)
Asset impairments, writedowns and amortisation	8.8	18.1
Non-deductible expense & Other	1.6	4.2
Differences in tax rates		3.0
Effects of changes in US tax legislation		(4.6)
Other permanent differences	2.1	(16.4)
Total Income Tax Expense after adjustments	5.0	(96.3)
Effective Tax Rate	24%	35%

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Reconciliation of accounting profit to income tax paid (cont)

	Australia Tax Consolidated (A\$m)	Fletcher Building Group (NZ\$m)
Income Tax Expense	5.0	(96.3)
Temporary Differences		
- increase/(decreases) in deferred tax assets		
Receivables	(0.6)	1.0
Inventories	1.8	2.8
Property Plant and Equipment	(5.4)	(0.2)
Intangible Assets	(0.3)	18.4
Provisions	3.1	77.9
Other	0.5	9.1
Pensions	0.7	(1.3)
Tax losses carried forward	21.8	21.8
Deferred Tax Expense	(0.2)	129.4
Other Adjustments to Current tax liabilities		
Opening balance in provision for income tax payable/(receivable)	(24.8)	14.8
Tax adjustments relating to prior period	(3.7)	
Tax Losses utilised in 2018	3.6	
PPA - 2019	1.8	
Tax payments/credits	(1.2)	(85.4)
Other	(3.9)	(8.7)
Australian tax losses moved to deferred tax	23.5	
Provision for Income tax payable/(receivable)	0.0	(46.3)
Income tax instalments paid	-	
Income tax refund for 30 June 2018	-	
Income tax paid for the year ended 30 June 2018	-	

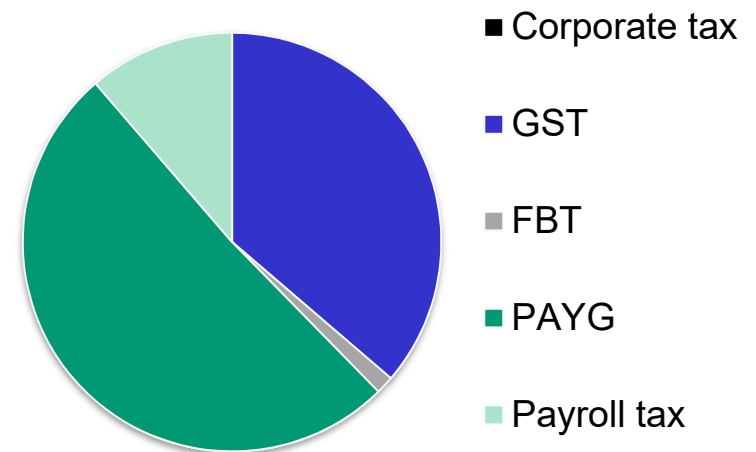
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Australia tax contribution statement

- During the 2018 financial year, Fletcher Building Australia paid or collected approximately \$AU229.9 million of taxes on behalf of both Federal and State Governments in Australia.
- A summary of the taxes paid and collected is summarised below:

Tax	Level of Government	2018 A\$M
Corporate tax	Federal	0.0
GST	Federal	83.4
FBT	Federal	3.2
PAYG	Federal	117.3
Payroll tax	State	<u>26.0</u>
Total		229.9



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International related party dealings

- Fletcher Building has operations in various foreign jurisdictions but predominately operates within New Zealand and Australia. The foreign jurisdictions in which it operates and its foreign subsidiaries are listed in Fletcher Building's Annual Report (refer Statutory Disclosures under 'Subsidiary Company Information').
- Fletcher Building Australia has relatively few international related party dealings. Fletcher Building does not operate a global integrated supply chain, rather Fletcher Building generally manufactures products for distribution in the country the products are manufactured. Products manufactured in Australia are almost wholly sold within Australia and while some product is imported from related parties, it is immaterial, representing less than 0.8% of Australian sales.
- Where products are sold/purchased cross border, the transactions are conducted on an arm's length basis in accordance with ATO transfer pricing rulings and guidance and the laws and rulings of the related party country.
- Fletcher Building Australia also receives and pays interest on a number of intercompany loans and there are various inter-group charges for services provided by different parts of the group.