FBuShare Plan Tonga - Employee Tax Summary

Fletcher Building Limited

31 January 2019

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Contents

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1. FBuShare plan summary

Under the Plan, you will be provided with the opportunity to contribute after-tax salary to purchase Phantom Company shares at market value ("Phantom Purchased Shares"); and, for shares purchased by you, Fletcher Building will grant you Rights to a number of free Phantom Fletcher Building shares ("Phantom Award Shares"). Subject to meeting the award conditions at the end of the Qualification Period ("Vesting"), your Rights to the Phantom Award Shares will vest and you will generally receive one Phantom Award Share for every two Phantom Purchased Shares held at the end of the Qualification Period.

A Phantom Purchased Share is a right to a cash payment equivalent in value to a Fletcher Building Share. A Phantom Purchased Share has no shareholder rights, no rights to dividend, no voting rights nor any other rights applicable to a Fletcher Building shareholder. However, Fletcher Building may distribute cash dividend equivalents to you of Phantom Purchased Shares equal in value to the gross dividend paid on Shares, structured as Phantom Dividend Shares.

The summary below is general in nature and is based on the Tonga income tax laws as at January 2019 and the tax obligations in relation to the Fletcher Building Limited FBuShare ("FBuShare" or the "Plan"). The taxation treatment of employee share awards changes from time to time, so it is strongly recommended that you seek your own professional advice in relation to your personal circumstances. JK Chartered Accountants, KPMG, Fletcher Building Limited and its subsidiaries ("Fletcher Building" or the "Company") will not be held responsible for employees who act on the advice provided in this employee tax summary.

The summary also assumes that you are an employee of Fletcher Building and that you are, and remain, a resident of Tonga for tax purposes. There are specific rules regarding temporary residents and those whose residency status changes. These rules need to be considered on a case-by-case basis and you should consult your tax adviser in these circumstances.

2. Tax summary

2.1 Phantom Purchased Shares

Your tax obligations in respect of your Phantom Purchased Shares are summarised as follows. Detailed tax considerations are in section 3 of this summary.

Event	Tax treatment for employees
Acquisition	No tax.
Sale	No tax.

2.2 Phantom Award Shares

Your tax obligations in respect of your Phantom Award Shares are summarised as follows:

Event	Tax treatment
Grant of Rights to Award Shares	No tax.
Allocation of Award Shares	Tax at your marginal rate.
Sale	No tax

2.3 Phantom Dividend Shares

Your tax obligations in respect of your Phantom Dividend Shares are summarised as follows:

Event	Tax treatment for employees
Dividend paid	Tax at your marginal rate.
Sale	No tax.

3. Detailed findings and recommendations

3.1 Phantom Purchased Shares

You will not be subject to income tax on acquisition of the Phantom Purchased Shares as the shares are purchased from after-tax salary and at market value.

— **Sale of Phantom Purchased Shares**

Unless you are in the "business" of trading in shares, the gross receipts from the sale of phantom shares is not deemed as taxable income.

Gains on disposal of a "business asset" are deemed to be taxable income, your phantom shares are not defined as being a "business asset" therefore any gain on the sale is not taxable income.

3.2 Phantom Award Shares

You will not be subject to tax when you receive your Rights to Phantom Award Shares upon the successful completion of the award conditions. You will be subject to tax at vesting of the Phantom Award shares.

— **Acquisition of Phantom Award Shares**

You will be subject to income tax on the fair market value of the Phantom Award Shares at vesting. The income tax will be calculated at your marginal tax rate (rates up to 25% on income over $60,000). Your employer will withhold this tax at vesting.

— **Sale of Phantom Purchased Shares**

Unless you are in the "business" of trading in shares, the gross receipts from the sale of phantom shares is not deemed as taxable income.

Gains on disposal of a "business asset" are deemed to be taxable income, your phantom shares are not defined as being a "business asset" therefore any gain on the sale is not taxable income.

3.3 Phantom Dividend Shares

You will be entitled to receive dividends paid on your Phantom Purchased Shares. There will be income tax payable in Tonga on the acquisition of Phantom dividend shares. The income tax payable will be calculated on your marginal income tax rate.

You are required to participate in the Phantom Dividend Programme to acquire Phantom Dividend Shares. As noted above, you will have a tax liability at the time the phantom dividends are paid / Phantom Dividend Shares are allocated, and it is recommended you consult your tax adviser.

3.4 Sale of Phantom Purchased Shares

Unless you are in the "business" of trading in shares, the gross receipts from the sale of phantom shares is not deemed as taxable income.

Gains on disposal of a "business asset" are deemed to be taxable income, your phantom shares are not defined as being a "business asset" therefore any gain on the sale is not taxable income

3.5 Your Reporting Obligations

As a Tonga "tax resident" gross income from all sources within and outside Tonga are reported in your annual income tax return. An individual's Income Tax return must be filed by 31 October.

3.6 Employer Withholding Obligations

The income tax payable at vesting of your Award Shares will be withheld by your employer as a PAYE tax deduction from your salary.

3.7 Employer Reporting Obligations

Your employer will report your income and the income tax paid on the Award Shares to the tax authorities.

4. Your Reporting Obligations

As a Tonga "tax resident" gross income from all sources within and outside Tonga are reported in your annual income tax return. An individual's Income Tax return must be filed by 31 October.

5. Employer Withholding Obligations

The income tax payable at vesting of your Award Shares will be withheld by your employer as a PAYE tax deduction from your salary.

6. Employer Reporting Obligations

Your employer will report your income and the income tax paid on the Award Shares to the tax authorities.

7. Taxation Illustration

The table below provides an example that illustrates the calculation of income tax as outlined in this summary. It does not provide any indication or assurance of the possible or likely share price. All figures and dates below are assumed; dividends and Dividend Shares have been disregarded for the purposes of this illustration. Different results may apply depending on the figures used and the timing of sale of shares. Your tax adviser will be able to advise you further.

Year 1:	You commence contributions to acquire Fletcher Building Shares and are allocated Purchased Shares on a monthly basis. You acquire 300 Purchased Shares at an average cost of 11 TOP (based on the TOP/AUD exchange rates on the date of purchase) that are held under nominee on your behalf. The cost base of the Purchased Shares is 3,300 TOP (the total amount of contributions made during the year). **You are granted 150 Rights to receive Award Shares.**
Year 4:	At the beginning of the fourth Plan Year, all your Rights to Award Shares 'vest' and Award Shares are allocated to you when the market value of a Fletcher Building share is 13 TOP.
Year 5:	After holding the Award Shares for more than 12 months you sell all your 450 Fletcher Building shares (i.e. 300 Purchased Shares and 150 Award Shares) for 14 TOP per share. Assume that there are no brokerage and associated sale costs. Let's also assume that your taxable income level is 70,000 TOP.

The table below provides a detailed breakdown of the calculation of income tax

Event	Tax Treatment (K)
Year 1 (contributions towards Phantom Purchased Shares made)	
3,300 TOP contributed over the year to obtain 300 Purchased Shares	Note[1]
Rights to Award Shares granted	
Year 4 (Phantom Award Shares allocated)	
Market value of shares (150 x 13 TOP)	1,950
Taxable income	1,950
Tax on income @ 25% (assuming salary exceeds 60,000 TOP)	(488)

[1] Generally, you will not be subject to income tax on acquisition of the Purchased Shares on the basis the phantom shares are purchased from after-tax salary and at market value.

Year 5 (Purchased Shares and Award Shares are sold)	
Net sale proceeds (450 x 14 TOP)	6,300
Less: Cost base of Phantom Purchased Shares	(3,300)
Less: Cost base of Phantom Award Shares (income reported in Year 4 for Phantom Award Shares)	(1,950)
Net gain	1,050
Taxable capital gain	1,050
Tax payable	0

Summary of transactions	
Net sale proceeds	6,300
Less: Tax payable at allocation of Phantom Award Shares (Year 4)	(488)
Less: Tax payable upon sale (Year 5)	(0)
Net proceeds after tax[2]	5,812

[2] Not including the cost of the Phantom Purchased Shares.

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