FLETCHER BUILDING LIMITED

MANAGEMENT COMMENTARY

FINANCIAL RESULTS FOR THE SIX MONTHS ENDING 31 DECEMBER 2016

Fletcher Building reports underlying net earnings growth of 18 per cent

Reported results	Six months ended 31 December		
NZ$m (except where noted)	**2016**	**2015**	**Change %**
Total revenue	**4,613**	**4,434**	**4%**
Operating earnings before significant items [1]	**310**	**278**	**12%**
Significant items [2]	(16)	10	**NM**
Operating earnings (EBIT)	**294**	**288**	**2%**
Funding costs	(52)	(60)	(13)%
Earnings before tax	**242**	**228**	**6%**
Tax expense	(61)	(52)	17%
Earnings after tax	**181**	**176**	**3%**
Non-controlling interests	(5)	(4)	**25%**
Net earnings	**176**	**172**	**2%**
Net earnings before significant items	**187**	**159**	**18%**
Basic earnings per share (cents)	**25.4**	**24.9**	**2%**
Basic earnings per share before significant items (cents)	**27.0**	**23.0**	**17%**
Dividends declared per share (cents)	**20.0**	**19.0**	**5%**
Capital expenditure	**127**	**122**	**4%**

[1] Operating earnings before significant items is a non-GAAP measure used by management to assess the performance of the business and has been derived from Fletcher Building Limited's interim financial statements for the period ended 31 December 2016.
[2] Details of significant items can be found in note 3 of the interim financial statements.

- Revenue for the period of $4,613 million was $179 million, or 4%, higher when compared with the prior corresponding period;
- Operating earnings before significant items were $310 million, 12% higher than the prior corresponding period;
- A charge of $16 million was recognised in significant items (2015: a gain of $10 million);
- Operating earnings of $294 million were $6 million, or 2%, higher than the prior corresponding period;
- Net earnings were $176 million, up 2%, from $172 million in the prior corresponding period;
- Net earnings before significant items were $187 million, up 18% on the prior corresponding period;
- Basic earnings per share were 25.4 cents, up from 24.9 cents;
- Interim dividend is 20.0 cents per share, a 5% increase on the interim dividend paid last year. The dividend is fully imputed for New Zealand tax purposes.

Financial Results

	Six months ended 31 December		
			Revenue
NZ$m	**2016**	**2015**	**Change**
Building Products	1,108	1,265	(12%)
International	1,005	1,080	(7%)
Distribution	1,644	1,610	2%
Residential and Land Development	163	108	51%
Construction	1,150	748	54%
Other	5	5	0%
Gross revenue	**5,075**	**4,816**	**5%**
less intercompany sales	(462)	(382)	(21%)
Group external revenue	**4,613**	**4,434**	**4%**

	Six months ended 31 December					
	Reported operating earnings			**Operating earnings before significant items[1]**		
NZ$m	**2016**	**2015**	**Change**	**2016**	**2015**	**Change**
Building Products	114	142	(20%)	129	132	(2%)
International	70	53	32%	70	53	32%
Distribution	84	64	31%	84	64	31%
Residential and Land Development	30	24	25%	30	24	25%
Construction	24	36	(33%)	24	36	(33%)
Corporate	(28)	(31)	(10%)	(27)	(31)	(13%)
Total	**294**	**288**	2%	**310**	**278**	12%
Funding costs	(52)	(60)	(13%)	(52)	(60)	(13%)
Earnings before tax	**242**	**228**	6%	**258**	**218**	18%
Tax expense	(61)	(52)	17%	(66)	(55)	20%
Earnings after tax	**181**	**176**	3%	**192**	**163**	18%
Non-controlling interests	(5)	(4)	25%	(5)	(4)	25%
Net earnings	**176**	**172**	2%	**187**	**159**	18%

[1] Operating earnings before significant items is a non-GAAP measure used by management to assess the performance of the business and has been derived from Fletcher Building Limited's interim financial statements for the period ended 31 December 2016.
[2] Details of significant items can be found in note 3 of the interim financial statements.

Financial Results
continued

Geographic segments — Six months ended 31 December

	Gross revenue			External revenue		
NZ$m	**2016**	**2015**	**Change**	**2016**	**2015**	**Change**
New Zealand	3,015	2,600	16%	2,607	2,279	14%
Australia	1,419	1,575	(10%)	1,374	1,525	(10%)
Rest of World	641	641	0%	632	630	0%
Total	**5,075**	**4,816**	**5%**	**4,613**	**4,434**	**4%**

Geographic segments — Six months ended 31 December

	Operating earnings before significant items[1]		
NZ$m	**2016**	**2015**	**Change**
New Zealand	205	200	3%
Australia	52	54	(4%)
Rest of World	53	24	121%
Total	**310**	**278**	**12%**

Geographic segments in local currency — Six months ended 31 December

	Gross Revenue			External revenue		
	2016	**2015**	**Change**	**2016**	**2015**	**Change**
Australia (A$m)	1,352	1,440	(6%)	1,309	1,395	(6%)
Rest of World (US$m)	457	424	8%	450	417	8%

Geographic segments in local currency — Six months ended 31 December

	Operating earnings before significant items[1]		
	2016	**2015**	**Change**
Australia (A$m)	50	49	2%
Rest of World (US$m)	38	16	138%

[1] Operating earnings before significant items is a non-GAAP measure used by management to assess the performance of the business and has been derived from Fletcher Building Limited's interim financial statements for the period ended 31 December 2016.
[2] Details of significant items can be found in note 3 of the interim financial statements.

Financial Results
continued

- External revenue of $4,613 million was $179 million or 4% higher than the prior corresponding period. New Zealand revenue increased by $328 million, but was offset by lower revenue in Australia (primarily due to the divestment of Rocla Quarries). In local currencies, revenue increased by 14% in New Zealand, declined by 6% in Australia and increased 8% in the Rest of World.
- Reported operating earnings before interest and tax of $294 million were 2% higher than the prior corresponding period.
- Reported operating earnings include significant items of $16 million relating to:
    - Costs of $15 million relating to site closures in Fletcher Insulation and Rocla Products; and
    - Costs of $1 million associated with the acquisition of the Higgins business.
- Operating earnings before significant items were $310 million, 12% higher than the prior corresponding period.
- In New Zealand, earnings benefited from continued demand across the residential building and infrastructure sectors, as well as improved operational performance in specific business units. Excluding the performance of the Construction division and divested and acquired businesses, earnings were up 20% on the prior corresponding period.
- In Australia, market conditions were mixed, with robust activity in Eastern states offset by challenging trading conditions in Western Australia and South Australia. Despite this, operating earnings before significant items increased 22% in local currency when adjusted for the divestment of the Rocla Quarries business. This was driven by improvements in Iplex Australia, Stramit, Laminex Australia, and Tradelink.
- In the Rest of World, earnings in local currency more than doubled driven by strong performances in Formica's Asian and European operations, alongside the Construction South Pacific business and contributions from the Higgins Fiji operations acquired in July 2016.
- Funding costs of $52 million were 13% lower than the prior corresponding period, due to lower debt levels at the beginning of the period, reduced borrowing costs following the refinancing of the USPP debt and the impact of derivative valuations.
- The tax expense of $61 million represents an effective tax rate for the period of 25% (2015: 23%).
- Earnings per share were 25.4 cents, an increase of 2% from 24.9 cents per share in the prior corresponding period.
- Earnings per share before significant items were 27.0 cents, an increase of 17% from 23.0 cents in the prior corresponding period.
- A cash outflow from operations of $67 million, compared with an inflow of $170 million in the prior corresponding period;

Segmental Operational Review

The following sections provide commentary on individual division results for the period ended 31 December 2016.

Building Products

Concrete Pipes & Products; Cement & Aggregates; Building Materials; Plastic Pipes; JV Earnings and Other

	Six months ended 31 December			
NZ$m	**2016**	**2015**	**Change**	**Change %**
Gross revenue	1,108	1,265	(157)	(12)%
External revenue	859	1,021	(162)	(16)%
Operating earnings before significant items[1]	129	132	(3)	(2)%
Significant items[2]	(15)	10	NM	NM
Operating earnings	114	142	(28)	(20)%
Funds	1,686	1,748	(62)	(4)%

	Six months ended 31 December		
	Operating earnings before significant items[1]		
NZ$m	**2016**	**2015**	**Change**
Concrete Pipes & Products	26	27	(4)%
Cement and Aggregates	38	35	9%
Building Materials	53	48	10%
Plastic Pipes	7	2	NM
JV Earnings and Other	5	5	0%
Subtotal	129	117	10%
Divested Businesses	0	15	NM
Total	129	132	(2)%

[1] Operating earnings before significant items is a non-GAAP measure used by management to assess the performance of the business and has been derived from Fletcher Building Limited's interim financial statements for the period ended 31 December 2016.
[2] Details of significant items can be found in note 3 of the interim financial statements.

The Building Products division reported gross revenue of $1,108 million compared with $1,265 million in the prior corresponding period, a reduction of 12%. Adjusting for divested businesses (Pacific Steel and Rocla Quarries) and the impact of joint venture accounting (Altus), revenue increased by 1%.

The division's operating earnings before significant items were $129 million, compared with $132 million in the prior corresponding period. Adjusting for divested businesses, earnings rose 10% from $117 million to $129 million.

Significant items of $15 million were reported in the current period relating to the cost of site closures in Rocla Products and Fletcher Insulation. This compared with a net gain of $10 million in the prior corresponding period, primarily attributable to the profit on sale of two Rocla Quarries joint ventures.

Operating earnings before significant items for Concrete Pipes & Products were $26 million compared to $27 million in the prior corresponding period. In New Zealand, ready-mix concrete volumes increased by 4% and concrete pipe volumes increased by 12% driven by higher civil work across almost all regions, however overall volumes were impacted by slowing market activity in Canterbury and the rural sector. In Australia, revenue and volumes were both flat year-on-year, partly due to exiting the market in Western Australia and the timing of some key projects.

The Cement and Aggregates businesses lifted operating earnings before significant items by 9% to $38 million. This was primarily driven by increases in New Zealand cement volumes, up 5% against the prior corresponding period, offset in part by exit costs associated with the retirement of the MV Golden Bay ship, which has now been replaced by the MV Aotearoa Chief. In Aggregates, performance was supported by a favourable change in the mix of regional quarrying volumes, including a 19% increase in aggregate sales in the Auckland region.

Building Materials operating earnings before significant items were $53 million, an increase of 10% on the prior corresponding period. Plasterboard volumes were up 9% overall, with volumes of performance boards increasing 11% in the period. The insulation businesses were also able to strengthen their position in markets in both New Zealand and Australia as a result of improvements in service and their relative cost position.

The Plastic Pipes businesses reported $7 million operating earnings before significant items, a $5 million improvement on the prior corresponding period. Volumes increased by 2% in Australia despite soft demand in the civil and mining segments, including from coal seam gas projects. The impact of this was, however, more than offset by efficiency gains and reductions in other operating costs. Earnings in the New Zealand Plastic Pipes business remained stable notwithstanding weaker demand in rural markets and increasing competitive pressure in the civil market segment.

International

Laminex; Formica; Roof Tile Group

	Six months ended 31 December			
NZ$m	**2016**	**2015**	**Change**	**Change %**
Gross revenue	1,005	1,080	(75)	(7)%
Revenue	997	1,067	(70)	(7)%
Operating earnings	70	53	17	32%
Funds	1,948	2,041	(93)	(5)%

	Six months ended 31 December		
			Operating earnings
NZ$m	**2016**	**2015**	**Change**
Laminex	45	41	10%
Formica	34	16	NM
Roof Tile Group	2	6	(67)%
International divisional costs	(11)	(10)	10%
Total	70	53	32%

Operating earnings for the International division were $70 million, up 32% from $53 million in the prior corresponding period. Gross revenue was down by 7%, largely due to the translation effect resulting from a strengthening of the New Zealand dollar, against the Australian dollar, US dollar and the Euro.

Laminex operating earnings were $45 million, up by 10% from $41 million in the prior corresponding period. In Australia, revenue in domestic currency was 5% lower, driven by reduced activity especially in Western Australia. New Zealand revenue was up by 9% on the prior corresponding period as activity levels continued to strengthen and market share improved. Competitive pressures remained strong and the business continued its programme of cost reduction, operational efficiencies, restructuring and new product initiatives.

Operating earnings in the Formica businesses were $34 million, up from $16 million in the prior corresponding period. Gross revenue was down by 7%, due to currency translation, but in domestic currencies was up by 2% on the prior corresponding period.

In Formica North America, revenue in domestic currencies was up by 2% whilst operating earnings in domestic currencies were down by 2% driven by softer margins from adverse channel mix and the impact of the much weakened peso on Mexican margins.

In Formica Asia, revenue in domestic currencies was up by 7% due to improving activity levels in the major markets. Performances in Thailand, Malaysia and Singapore were strong with revenue up by 12% on the prior corresponding period. China revenue increased by 9% while in Taiwan revenue was down by 1%. Operating earnings in local currencies were up by 52% on the prior corresponding period, due to sales growth across the region coupled with continuing improvements in the operating facilities including increased utilisation at the laminate factory in Jiujiang, China.

Gross revenue in Formica Europe in domestic currencies remained flat compared to the prior corresponding period as improvements in Northern and Central Europe were offset by decreases in the UK and Spain. There was a $14 million improvement in operating earnings on the prior corresponding period. This was due to an improved operational performance at the North Shields factory in the UK along with efficiencies resulting from overhead cost reductions.

In the Roof Tile Group business, earnings of $2 million were down on the prior corresponding period, principally due to performance in the African market, where a decline in local activity levels has been compounded by a strengthening of the New Zealand dollar against the US dollar. Performances in other key global markets were varied, with New Zealand, Asia and Japan up on the prior corresponding period, while Europe and the US were relatively flat.

Distribution

NZ Building Supplies; NZ Steel Distribution; Australian Building Supplies; Australian Steel Distribution

	Six months ended 31 December			
NZ$m	**2016**	**2015**	**Change**	**Change %**
Gross revenue	1,644	1,610	34	2%
External revenue	1,559	1,531	28	2%
Operating earnings	84	64	20	31%
Funds	1,039	1,049	(10)	(1)%

	Six months ended 31 December		
			Operating earnings
NZ$m	**2016**	**2015**	**Change**
NZ Building Supplies	47	39	21%
NZ Steel Distribution	25	17	47%
Australian Building Supplies	2	0	NM
Australian Steel Distribution	10	8	25%
Total	84	64	31%

The Distribution division reported operating earnings of $84 million, a 31% increase on the prior corresponding period. The result reflects strong performance by the New Zealand businesses compared with the prior corresponding period. While the Australian operations improved, the increase in New South Wales, Queensland and Victoria was offset by market contractions in Western Australia and South Australia.

In New Zealand, residential demand declined in Christchurch following the peak of the earthquake rebuild. However, this has been more than offset by positive activity growth in all other regions, especially Auckland and surrounding regions.

In the NZ Building Supplies businesses, gross revenue of $765 million increased by 7%, with PlaceMakers delivering record sales in the period. This was driven by growth in the small and medium enterprise (SME) and commercial sectors and double-digit growth in core accounts. Mico also experienced strong growth, particularly in front of wall sales, buoyed by strong customer value propositions and strategic marketing initiatives.

Operating earnings in the NZ Building Supplies businesses increased by 21% when compared to the prior corresponding period. This comprised an 18% increase for PlaceMakers and a 50% increase for Mico as both businesses continue to focus on profitable growth, including growing higher margin categories, leveraging costs and realising synergies together. Currently there are 11 Mico sites co-located with either PlaceMakers or Humes, with additional co-locations being planned.

The NZ Steel Distribution businesses reported a 47% increase in operating earnings, with healthy market activity and share gains leading to volume growth of 14%, supported by operating efficiencies and overhead cost synergies following the incorporation of Dimond earlier in 2016.

The Australian Building Supplies businesses reported operating earnings of $2 million, up from a break-even result in the prior corresponding period. In the period, Tradelink has opened 16 new branches, improved gross margins, launched a unique customer service proposition, driven targeted SME sector growth initiatives and rationalised overhead cost structures to enable future top-line and earnings growth. This positive momentum was, however, impacted by market declines in Western Australia and South Australia, which led to Tradelink's local currency revenues being flat year on year.

The Australian Steel Distribution division reported operating earnings up 25% at $10 million compared to $8 million in the prior corresponding period. In August 2016, Stramit launched a unique customer service proposition driving a number of customer focussed improvement initiatives. Although impacted by the market decline in Western Australia, earnings were driven by top line revenue growth together with continued focus on operational efficiencies and strong cost controls.

Residential and Land Development

NZ Residential; Land Development

	Six months ended 31 December			
NZ$m	**2016**	**2015**	**Change**	**Change %**
Gross revenue	163	108	55	51%
External revenue	163	108	55	51%
Operating earnings	30	24	6	25%
Funds	477	295	182	62%

	Six months ended 31 December		
	Operating earnings		
NZ$m	**2016**	**2015**	**Change**
NZ Residential	25	24	4%
Land Development	5	0	NM
Total	30	24	25%

The Residential and Land Development division reported gross revenue of $163 million and operating earnings of $30 million, increases of 51% and 25% respectively on the prior corresponding period.

NZ Residential reported gross revenue for the period of $156 million, up from $108 million in the prior corresponding period, driven by an increase in the volume of units sold in both Auckland and Christchurch, strong market pricing in the Auckland region, and the sale of a large residential block of land.

NZ Residential operating earnings were $25 million, 4% higher than the prior corresponding period. The reduction in earnings from the completion of the Greenhithe development was offset by strong volumes at the existing locations of Beachlands, Karaka and Hobsonville. In addition, new developments at Whenuapai, Ormiston and Swanson delivered their first sales.

Land Development operating earnings were $5 million. This business comprises a combination of residential and commercial land that is developed for sale to third parties. In the latest period earnings primarily comprise the sale of the first lot at the Wiri North commercial sub-division. The Land Development business is forecast to report at least $25 million of operating earnings per annum over the next five years.

Funds employed increased to $477 million from $355 million at 30 June 2016. Work-in-progress increased in the period due to significant earthworks on previously acquired sites, an increase in apartment building at Atlas Quarter in Christchurch and Tatua on Eden in Auckland, and an increase in the number of homes under construction in both Auckland and Christchurch, with progress in scaling the business to deliver approximately 1,500 units per annum.

In addition, land holdings increased during the period as lots were purchased in Auckland, specifically at Ormiston, Beachlands, Penihana, and Whenuapai. The purchase of raw land at Oruarangi Road, Auckland was also completed and deposits paid on two additional blocks at Hobsonville.

Construction

Construction New Zealand; Construction South Pacific

	Six months ended 31 December			
NZ$m	**2016**	**2015**	**Change**	**Change %**
Gross revenue	1,150	748	402	54%
External revenue	1,035	707	328	46%
Operating earnings	24	36	(12)	(33)%
Funds	366	(37)	403	NM

	Six months ended 31 December		
	Operating earnings		
NZ$m	**2016**	**2015**	**Change**
Construction New Zealand	1	26	NM
Construction South Pacific	23	10	NM
Total	24	36	(33%)

The Construction division reported operating earnings of $24 million compared with $36 million in the prior corresponding period. Earnings include a contribution of $19 million from the Higgins contracting business acquired in July 2016.

The reduction in operating earnings is due to a range of factors, notably: timing of earnings recognition for major projects; bid costs incurred in the period; reduced contribution from Fletcher EQR as the Canterbury earthquake home repair programme nears completion; and losses incurred on a major construction project.

The division achieved strong revenue growth, with gross revenue increasing by 54% to $1,150 million. Included in the result was revenue from the Higgins business of $188 million; revenue growth excluding Higgins was 29%.

At 31 December 2016, the backlog of work for the division, being the value of contracted work awarded but not completed, was $2.7 billion, compared with $3.3 billion as at 31 December 2015.

The New Zealand businesses continued to record strong activity levels with two major roading projects won during the period as part of the New Zealand Transport Agency's Roads of National Significance programme: the 13 km Peka Peka to Otaki Expressway; and the 18.5 km Pūhoi to Warkworth motorway to extend Auckland's Northern Motorway, which has been procured as a PPP (Private Public Partnership), comprising Fletcher Construction, Higgins and Acciona. Work on two other major road contracts, the Waterview tunnel in Auckland and the MacKay's to Peka Peka project north of Wellington, will be completed prior to 30 June 2017.

The South Pacific businesses reported earnings of $23 million, an increase from $10 million in the prior corresponding period. The increase in earnings includes a contribution from Higgins' Fijian operations, together with the declaration of final margins on several key projects in Papua New Guinea and American Samoa. In Fiji, work neared completion of the Momi Bay Resort, while further work was won on a hotel development in Papua New Guinea.

Following its acquisition, the Higgins contracting business has been integrated into the Construction division and has continued to operate very successfully under existing management while leveraging Fletcher Building's scale and structure. Higgins has an unprecedented confirmed backlog of work ahead with strong ongoing demand for new projects, including participation in the North Canterbury Transport Infrastructure Rebuild Alliance (NCTIR) in response to the Kaikoura earthquakes.

Financial Review

Group Cash Flow

NZ$m	Six months ended 31 December 2016	2015	Change
Operating earnings before significant items[1]	**310**	**278**	**32**
Depreciation and amortisation	102	97	5
Less cash tax paid	(69)	(67)	(2)
Less interest paid	(54)	(60)	6
Provisions, significant items and other	(43)	(40)	(3)
Cash from operations before working capital movements	**246**	**208**	**38**
Land and developments	(164)	(85)	(79)
Other working capital movements	(149)	47	(196)
Cash flows from operating activities	**(67)**	**170**	**(237)**

[1] Operating earnings before significant items is a non-GAAP measure used by management to assess the performance of the business and has been derived from Fletcher Building Limited's interim financial statements for the period ended 31 December 2016. Details of significant items can be found in note 3 of the interim financial statements.

Detailed disclosure of the above line items is included in Fletcher Building Limited's interim financial statements which have been released with this Management Commentary.

Cash flows from operating activities of $(67) million were $237 million lower than the prior corresponding period. Cash flows from operations before working capital movements were $246 million, up from $208 million and reflective of higher earnings. Working capital cash-flows declined in large part due to higher land and developments investment of $79 million and a one-off inflow in the prior corresponding period of $56 million following the closure of the Pacific Steel operations. The remaining difference largely related to timing of contract payments and the build-up of stock in preparation for shutdowns and product launches in the second half.

Capital expenditure	Six months ended 31 December		
NZ$m	**2016**	**2015**	**Change**
Capital expenditure	127	122	5

Capital expenditure was $127 million, compared with $122 million in the prior corresponding period. Of this total, $69 million was for stay-in-business capital projects and $58 million related to new growth initiatives.

For the financial year, capital expenditure is expected to be in the range of $275 million to $325 million.

Funding

Total available funding as at 31 December 2016 was $2,500 million. Of this, $310 million was undrawn and there was an additional $229 million of cash on hand. Drawn debt facilities maturing within the next 12 months total $246 million and a further $68 million of capital notes are subject to interest rate and term reset.

The group's gearing[1] at 31 December 2016 was 35.4% compared with 32.8% at 31 December 2015. This has increased following the acquisition of Higgins in July 2016 and is within the target range of 30-40%.

The group's leverage[2] at 31 December 2016 was 2.5 times compared with 2.4 times at 31 December 2015. This is within the target range of 2.0-2.5 times.

The average maturity of the debt is 5.1 years and the hedged currency split is 33% Australian dollar; 50% New Zealand dollar; 11% US dollar; and 6% spread over various other currencies.

Approximately 47% of all borrowings have fixed interest rates with an average duration of 3.7 years and a rate of 6.0%. Inclusive of floating rate borrowings, the average interest rate on the debt is approximately 5.0%.

Interest coverage[3] for the year was 6.0 times compared with 4.6 times in the prior corresponding period.

[1] Interest bearing net debt (including capital notes) to interest bearing net debt (including capital notes) and equity
[2] Interest bearing net debt (including capital notes) to annualised EBITDA before significant items
[3] EBIT before significant items to total interest paid including capital notes interest

Dividend

The 2017 interim dividend is 20.0 cents per share. In line with the group's tax crediting policy announced in August 2016, both the interim and final dividend in 2017 will be fully imputed with New Zealand tax credits. The interim dividend will be unfranked for Australian tax purposes. The imputed amount per share on the dividend is 7.7778 cents.

As a fully imputed dividend, a supplementary dividend is payable to non-New Zealand non-portfolio shareholders and has the effect of removing or reducing the cost of New Zealand non-resident withholding tax (NRWT). For most Australian resident shareholders receiving a supplementary dividend, the after tax return of the fully imputed dividend is equivalent to receiving a 41% franked dividend.

The dividend will be paid on 12 April 2017 to holders registered as at 5.00 pm Friday 24 March 2017 (NZT). The shares will be quoted on an ex dividend basis from 23 March 2017 on the NZX and ASX.

A dividend summary is provided overleaf.

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 ("the Plan"), under which they have the opportunity to reinvest their dividends in additional shares. The 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.fbu.com and must be received by the registry before 5.00 pm Monday 27 March 2017. 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 ex-dividend date of 23 March 2017. The new shares will rank equally with existing shares and will be issued on the dividend payment date of 12 April 2017.

Dividend Policy

Fletcher Building seeks to maintain dividends through economic cycles, and to progressively grow the dividend over the medium term. The target dividend pay-out ratio, in the range of 50 to 75% of net earnings, is intended to provide sufficient flexibility for dividends to be maintained despite variations in economic conditions. Maintenance of a dividend in this range will be subject to there being no material adverse change in circumstances or outlook. In determining a dividend for any year a number of factors are taken into consideration, including current and forecast earnings and operating cash flows, capital requirements, and the company's debt equity position.

Beyond dividends, Fletcher Building will consider other means of distribution, should cash flows and future investment requirements allow.

Fletcher Building's policy on franking and imputation is to fully impute both the interim and final dividend with New Zealand tax credits each year (or to the maximum extent possible) and fully frank the final dividend with Australian tax credits where possible.

Fletcher Building expects to be able to impute both interim and final dividends for the current and at least the two following years, subject to the overall financial performance of the group.

2017 Interim 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 49%	Australian Residents on 15% Tax Rate	Other Non Residents[8]
Dividend declared	20.0000	20.0000	20.0000	20.0000
NZ imputation credits[2]	7.7778			
NZ supplementary dividend[3]		3.5294	3.5294	3.5294
Australian franking credits[4]		0.0000	0.0000	
Gross dividend for NZ tax purposes	**27.7778**	**23.5294**	**23.5294**	**23.5294**
NZ tax (33%)[5]	(9.1667)			
NZ non-resident withholding tax (15%)[6]		(3.5294)	(3.5294)	(3.5294)
Net cash received after NZ tax	**18.6111**	**20.0000**	**20.0000**	**20.0000**
Australian tax (49% and 15%)[7]		(11.5294)	(3.5294)	
Reduced by offset for NZ non-resident withholding tax		3.5294	3.5294	
Less Australian franking credit offset		0.0000	0.0000	
Net cash dividend to shareholders after tax	**18.6111**	**12.0000**	**20.0000**	**20.0000**

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 advice.
2. The dividend has imputation credits attached at a 28% tax rate.
3. A supplementary dividend is only 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.
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 1.3889 cents per share will be made on the date of payment from the dividend declared of 20.0 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 credit for the RWT deduction in excess of their marginal tax rate.
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 49%, including the Medicare Levy and the Temporary Budget Repair 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:	49% Rate	15% Rate
Gross dividend for NZ tax purposes	23.5294	23.5294
Plus franking credits	0.0000	0.0000
Gross dividend for Australian tax purposes	23.5294	23.5294
Australian tax	11.5294	3.5294

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 advisor.

Business Transformation Update and Outlook

Update on Business Transformation Programme

Work has continued in the last six months to execute the Business Transformation Programme known as Accelerate. There are three areas of opportunities to extract value from Fletcher Building's business units:

- Commercial – revenue and product margin growth
- Cost – external expenditure and overhead costs
- Manufacturing and operational efficiency – including manufactured products, distribution costs and construction delivered margin.

The Accelerate programme is on track to deliver its expected benefits. To date, this has translated to over 2,000 initiatives that have been put in train, of which a large proportion are expected to result in tangible benefits by the end of FY18. Implementing the programme has led to a performance focus and delivery cadence that is becoming entrenched in management discipline. Over the coming year it is expected that the programme will transition to a business-as-usual activity embedded within routine management practice.

Outlook

The current strong macro-economic conditions in New Zealand are expected to continue to benefit Fletcher Building throughout the 2017 financial year. This is likely to provide further opportunities to expand operating margins in the Building Products and Distribution businesses due to a combination of volume improvements, cost reductions and modest price increases in the absence of industry constraints. The Auckland market and surrounding regions continue to show strong demand for new housing and, coupled with new national infrastructure and commercial projects, elevated levels of residential, commercial and infrastructure construction are likely to be sustained in the medium term.

In Australia, New South Wales construction activity looks to be maintaining a positive trajectory which is in contrast to Western Australia where Fletcher Building has worked hard to digest the economic downturn. In Residential Fletcher Building is principally exposed to stand-alone housing, which has so far proved resilient, while the multi-dwelling segment shows signs of peaking. Commercial construction activity is still at elevated levels but not exhibiting growth, whereas specific segments of civil infrastructure are showing more positive signs.

North American residential and commercial construction activity levels are expected to remain broadly consistent with last year, with the impact of a new presidential administration uncertain at this point in time. European conditions continue to be mixed with some growth in the UK being offset by weaker continental European markets. Asian markets are showing some signs of improving volumes but remain competitive.

Momentum in the Fletcher Building businesses gives us reason to reiterate guidance for operating earnings (earnings before interest, tax and significant items) of $720 million to $760 million for the 2017 financial year. The earnings from the acquired Higgins business will offset the impact of the divested businesses of Pacific Steel and Rocla Quarry Products, and Fletcher EQR.

Specific divisional commentary in respect of 2017 full year earnings is provided as follows:

• Building Products:

- Improved operating performance from most businesses within the division, leading to higher operating earnings than the prior year after adjusting for the divested businesses;
- No earnings contribution from the divested Rocla Quarries and Pacific Steel businesses, given the sale of these businesses was completed in FY16.

• International:

- Formica's European operations will return to profitability in FY17, and together with growth in Asia should lead to material improvement in the year-on-year performance of the Formica operation;
- Both Laminex businesses are expected to report year-on-year earnings growth;

• Distribution:

- New Zealand distribution earnings are expected to show robust earnings growth in FY17 compared to FY16, driven by consistent earnings growth across the business units;
- In Australia, the earnings of Stramit, Tasman Sinkware and Tradelink are all expected to improve on an underlying basis compared to FY16.

• Residential and Land Development:

- Residential earnings for FY17 are expected to be higher than the prior year, with a similar weighting to the second half of the year as was reported in FY16, due to the timing of delivery of residential housing lots;
- Land Development earnings are expected to increase as a result of a number of new projects in the Auckland area.

• Construction:

- FY17 earnings are expected to decline compared with earnings reported in FY16;
- A reduction in EQR earnings versus FY16 will be more than offset by eleven months of earnings from Higgins.

Divisions

Division	Business Groupings	Key Businesses
Building Products	Concrete Pipes & Products	Firth Concrete (NZ) Humes Pipelines (NZ) Rocla Products (AU)
	Cement & Aggregates	GBC Winstone (NZ)
	Building Materials	Winstone Wallboards (NZ) Tasman Insulation (NZ) Fletcher Insulation (AU)
	Plastic Pipes	Iplex (NZ & Australia)
	JV Earnings and other	Joint ventures & other
	Divested Businesses	Rocla Quarries (AU) (ceased in FY16) Long Steel Manufacturing (ceased in FY16)
International	Formica	Formica Asia Formica Europe Formica North America
	Laminex	Laminex New Zealand Laminex Australia
	Roof Tile Group	Gerard Roofing Systems (NZ / Asia / Europe) DECRA Roofing Systems (USA)
Distribution	New Zealand Building Supplies	PlaceMakers Mico Plumbing
	Australian Building Supplies	Tradelink Tasman Sinkware
	New Zealand Steel Distribution	Pacific Coilcoaters Easysteel Fletcher Reinforcing Dimond
	Australian Steel Distribution	Stramit
Residential and Land Development	NZ Residential	Fletcher Living
	Land Development	Land Development
Construction	Construction New Zealand	Fletcher Construction Higgins Construction Fletcher EQR
	Construction South Pacific	Fletcher Construction South Pacific Higgins Fiji

Appendix:
Supplemental split of Divisional results

Gross revenue

Building Products

Gross revenue (NZ$m)	2016	2015	Change
	Six months ended 31 December		
Concrete Pipes & Products	394	384	3%
Cement and Aggregates	202	190	6%
Building Materials	245	239	3%
Plastic Pipes	241	256	(6%)
Joint Ventures & Other	26	101	(74%)
Subtotal	1,108	1,170	(5)%
Divested Businesses	0	95	NM
Total	**1,108**	**1,265**	**(12%)**

International

Gross revenue (NZ$m)	2016	2015	Change
	Six months ended 31 December		
Laminex	469	502	(7%)
Formica	450	486	(7%)
Roof Tile Group	86	92	(7%)
Total	**1,005**	**1,080**	**(7%)**

Distribution

Gross revenue (NZ$m)	2016	2015	Change
	Six months ended 31 December		
NZ Building Supplies	765	717	7%
Australian Building Supplies	392	411	(5%)
NZ Steel Distribution	239	218	10%
Australian Steel Distribution	248	264	(6%)
Total	**1,644**	**1,610**	**2%**

Residential and Land Development

Gross revenue (NZ$m)	2016	2015	Change
	Six months ended 31 December		
NZ Residential	156	108	44%
Land Development	7	0	NM
Total	**163**	**108**	**51%**

Construction

Gross revenue (NZ$m)	2016	2015	Change
	Six months ended 31 December		
Construction New Zealand	1,033	665	55%
Construction International	117	83	41%
Total	**1,150**	**748**	**54%**

Appendix:
Supplemental split of Divisional results

Local currency gross revenue

The following presents the divisional results in key currency components. These local currency amounts are translated to New Zealand dollars to present the results on the previous page.

Building Products

Gross revenue	2016	2015	Change
	Six months ended 31 December		
New Zealand (NZ$m)	722	797	(9%)
Australia (A$m)	368	428	(14%)

International

Gross revenue	2016	2015	Change
	Six months ended 31 December		
New Zealand (NZ$m)	88	90	(2%)
Australia (A$m)	377	398	(5%)
Rest of World (US$m)	371	367	1%

Distribution

Gross revenue	2016	2015	Change
	Six months ended 31 December		
New Zealand (NZ$m)	1,005	936	7%
Australia (A$m)	607	615	(1%)

Residential and Land Development

Gross revenue	2016	2015	Change
	Six months ended 31 December		
New Zealand (NZ$m)	163	108	51%

Construction

Gross revenue	2016	2015	Change
	Six months ended 31 December		
New Zealand (NZ$m)	1,033	665	55%
Rest of World (US$m)	83	55	51%

Appendix:
Supplemental split of Divisional results

External revenue

Building Products

External revenue (NZ$m)	2016	2015	Change
	Six months ended 31 December		
Concrete Pipes & Products	342	338	1%
Cement and Aggregates	109	100	9%
Building Materials	183	178	3%
Plastic Pipes	199	209	(5%)
Joint Ventures & Other	26	101	(74%)
Subtotal	859	926	(7%)
Divested Businesses	0	95	NM
Total	**859**	**1,021**	**(16%)**

International

External revenue (NZ$m)	2016	2015	Change
	Six months ended 31 December		
Laminex	460	491	(6%)
Formica	452	485	(7%)
Roof Tile Group	85	91	(7%)
Total	**997**	**1,067**	**(7%)**

Distribution

External revenue (NZ$m)	2016	2015	Change
	Six months ended 31 December		
NZ Building Supplies	740	693	7%
Australian Building Supplies	391	410	(5%)
NZ Steel Distribution	185	169	9%
Australian Steel Distribution	243	259	(6%)
Total	**1,559**	**1,531**	**2%**

Residential and Land Development

External revenue (NZ$m)	2016	2015	Change
	Six months ended 31 December		
NZ Residential	156	108	44%
Land Development	7	0	NM
Total	**163**	**108**	**51%**

Construction

External revenue (NZ$m)	2016	2015	Change
	Six months ended 31 December		
Construction New Zealand	918	624	47%
Construction International	117	83	41%
Total	**1,035**	**707**	**46%**

Appendix:
Supplemental split of Divisional results

Local currency external revenue

The following presents the divisional results in key currency components. These local currency amounts are translated to New Zealand dollars to present the results on the previous page.

Building Products

External revenue	2016	2015	Change
	Six months ended 31 December		
New Zealand (NZ$m)	512	596	(14%)
Australia (A$m)	331	389	(15%)

International

External revenue	2016	2015	Change
	Six months ended 31 December		
New Zealand (NZ$m)	88	88	0%
Australia (A$m)	377	397	(5%)
Rest of World (US$m)	366	361	1%

Distribution

External revenue	2016	2015	Change
	Six months ended 31 December		
New Zealand (NZ$m)	926	863	7%
Australia (A$m)	601	609	(1%)

Residential and Land Development

External revenue	2016	2015	Change
	Six months ended 31 December		
New Zealand (NZ$m)	163	108	51%

Construction

External revenue	2016	2015	Change
	Six months ended 31 December		
New Zealand (NZ$m)	918	624	47%
Rest of World (US$m)	83	55	51%

Appendix:
Supplemental split of Divisional results

Operating earnings before significant items

Building Products

Six months ended 31 December			
Operating earnings[1] (NZ$m)	**2016**	**2015**	**Change**
Concrete Pipes & Products	26	27	(4%)
Cement and Aggregates	38	35	9%
Building Materials	53	48	10%
Plastic Pipes	7	2	NM
Joint Ventures & Other	5	5	0%
Subtotal	129	117	10%
Divested Businesses	0	15	NM
Total	**129**	**132**	**(2%)**

International

Six months ended 31 December			
Operating earnings[1] (NZ$m)	**2016**	**2015**	**Change**
Laminex	45	41	10%
Formica	34	16	NM
Roof Tile Group	2	6	(67%)
International divisional costs	(11)	(10)	10%
Total	**70**	**53**	**32%**

Distribution

Six months ended 31 December			
Operating earnings[1] (NZ$m)	**2016**	**2015**	**Change**
NZ Building Supplies	47	39	21%
Australian Building Supplies	2	0	NM
NZ Steel Distribution	25	17	47%
Australian Steel Distribution	10	8	25%
Total	**84**	**64**	**31%**

Residential and Land Development

Six months ended 31 December			
Operating earnings[1] (NZ$m)	**2016**	**2015**	**Change**
NZ Residential	25	24	4%
Land Development	5	0	NM
Total	**30**	**24**	**25%**

Construction

Six months ended 31 December			
Operating earnings[1] (NZ$m)	**2016**	**2015**	**Change**
Construction New Zealand	1	26	(96%)
Construction International	23	10	NM
Total	**24**	**36**	**(33%)**

[1] Operating earnings before significant items is a non-GAAP measure used by management to assess the performance of the business and has been derived from Fletcher Building Limited's interim financial statements for the period ended 31 December 2016. Details of significant items can be found in note 3 of the interim financial statements.

Appendix:
Supplemental split of Divisional results

Local currency results

The following presents the divisional results in key currency components. These local currency amounts are translated to New Zealand dollars to present the results on the previous page.

Building Products

Operating earnings	2016	2015	Change
	Six months ended 31 December		
New Zealand (NZ$m)	125	119	5%
Australia (A$m)	4	12	(68%)

International

Operating earnings	2016	2015	Change
	Six months ended 31 December		
New Zealand (NZ$m)	8	8	0%
Australia (A$m)	33	32	3%
Rest of World (US$m)	19	7	NM

Distribution

Operating earnings	2016	2015	Change
	Six months ended 31 December		
New Zealand (NZ$m)	72	56	29%
Australia (A$m)	11	7	57%

Residential and Land Development

Operating earnings	2016	2015	Change
	Six months ended 31 December		
New Zealand (NZ$m)	30	24	25%

Construction

Operating earnings	2016	2015	Change
	Six months ended 31 December		
New Zealand (NZ$m)	1	26	(96%)
Rest of World (US$m)	16	7	NM

[1] Operating earnings before significant items is a non-GAAP measure used by management to assess the performance of the business and has been derived from Fletcher Building Limited's interim financial statements for the period ended 31 December 2016. Details of significant items can be found in note 3 of the interim financial statements.