MANAGEMENT COMMENTARY

FINANCIAL RESULTS FOR THE YEAR ENDED 30 JUNE 2018

Reported results		Year ended 30 June	
NZ$m (except where noted)	2018	2017	Change %
Total revenue	**9,471**	**9,399**	**1%**
Operating earnings before significant items [1]	**50**	**525**	**(90)%**
Significant items [2]	(168)	(252)	(33)%
Operating earnings (EBIT)	**(118)**	**273**	**NM**
Funding costs	(157)	(111)	41%
Earnings/(loss) before tax	**(275)**	**162**	**NM**
Tax benefit/(expense)	96	(57)	NM
Earnings/(loss) after tax	**(179)**	**105**	**NM**
Non-controlling interests	(11)	(11)	**0%**
Net earnings/(loss)	**(190)**	**94**	**NM**
Net earnings/(loss) before significant items	**(60)**	**321**	**NM**
Basic earnings per share (cents)	**(25.5)**	**13.5**	**NM**
Dividends declared per share (cents)	**0.0**	**39.0**	**NM**
Cash flows from operating activities	**396**	**243**	**63%**
Capital expenditure	**304**	**319**	**(5)%**

Operating earnings before significant items[1]	**50**	**525**	**(90)%**
Building + Interiors (B+I)	**(660)**	**(292)**	**NM**
Operating earnings (excluding B+I) before significant items[3]	**710**	**817**	**(13)%**

[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 financial statements for the year ended 30 June 2018.
[2] Details of significant items can be found in note 4 of the financial statements.
[3] Measure excludes the impact of the Building + Interiors (B+I) business unit

- Revenue for the period of $9,471 million was $72 million, or 1%, higher when compared with the prior year;
- Operating earnings before significant items were $50 million, which included the impact of losses in the Building + Interiors ("B+I") business of $660 million as announced in February 2018;
- Operating earnings (excluding B+I) before significant items of $710 million were within earnings guidance, and were $107 million, or 13%, lower than the prior year;
- A charge of $168 million was recognised in significant items (2017: a charge of $252 million) relating to group restructuring charges, gains on divestments, and certain asset impairments;
- A cash inflow from operations of $396 million was $153 million, or 63%, higher than the prior year.
- Net earnings were a loss of $190 million, down from a profit of $94 million in the prior year;
- In line with the Company's Dividend Policy, the Board has determined that it will not declare a final dividend.

Financial Results

	Year ended 30 June		
			Revenue
NZ$m	2018	2017	Change
Building Products	764	745	3%
Distribution	1,530	1,519	1%
Steel	532	491	8%
Concrete	812	781	4%
Residential and Development	575	420	37%
Construction	1,685	2,246	(25%)
Australia	3,076	2,858	8%
Formica and Roof Tile Group	1,177	1,120	5%
Divested businesses	108	78	38%
Other	8	9	(11%)
Gross revenue	**10,267**	**10,267**	**0%**
less intercompany sales	(796)	(868)	(8%)
Group external revenue	**9,471**	**9,399**	**1%**

				Year ended 30 June		
	Reported operating earnings			Operating earnings before significant items and B+I[1]		
NZ$m	2018	2017	Change	2018	2017	Change
Building Products	132	152	(13%)	132	152	(13%)
Distribution	101	104	(3%)	104	104	0%
Steel	41	54	(24%)	49	54	(9%)
Concrete	73	113	(35%)	90	113	(20%)
Residential and Development	136	130	5%	136	130	5%
Construction	(613)	(204)	NM	52	88	(41%)
Australia	65	(132)	NM	114	119	(4%)
Formica and Roof Tile Group	8	79	(90%)	65	79	(18%)
Corporate	(111)	(31)	NM	(45)	(30)	(50%)
Divested businesses	50	8	NM	13	8	63%
Total	**(118)**	**273**	**NM**	**710**	**817**	**(13%)**
Funding costs	(157)	(111)	(41%)	(157)	(111)	(41%)
Earnings/(loss) before tax	**(275)**	**162**	**NM**	**553**	**706**	**(22%)**
Tax benefit/(expense)	96	(57)	NM	(127)	(164)	(23%)
Earnings/(loss) after tax	**(179)**	**105**	**NM**	**426**	**542**	**(21%)**
Non-controlling interests	(11)	(11)	0%	(11)	(11)	0%
Net earnings/(loss)	**(190)**	**94**	**NM**	**415**	**531**	**(22%)**

[1] Operating earnings before significant items and B+I is a non-GAAP measure used by management to assess the performance of the business and has been derived from Fletcher Building Limited's financial statements for the year ended 30 June 2018. Details of B+I and significant items can be found in notes 3 and 4 of the financial statements respectively.
[2] Financial results are presented under the new divisional structure, as announced on 21 June 2018.

Financial Results
continued

Geographic segments — **Year ended 30 June**

	Gross revenue			External revenue		
NZ$m	**2018**	**2017**	**Change**	**2018**	**2017**	**Change**
New Zealand	5,867	6,126	(4%)	5,220	5,381	(3%)
Australia[2]	3,120	2,853	9%	3,018	2,766	9%
Rest of World	1,280	1,288	(1%)	1,233	1,252	(2%)
Total	**10,267**	**10,267**	**0%**	**9,471**	**9,399**	**1%**

Geographic segments — **Year ended 30 June**

	Operating earnings before significant items[1]		
NZ$m	**2018**	**2017**	**Change**
New Zealand	(172)	282	NM
Australia[2]	123	120	3%
Rest of World	99	123	(20%)
Total	**50**	**525**	**(90%)**

Geographic segments in local currency — **Year ended 30 June**

	Gross Revenue			External revenue		
	2018	**2017**	**Change**	**2018**	**2017**	**Change**
Australia (A$m)[2]	2,877	2,701	7%	2,783	2,619	6%
Rest of World (US$m)	913	918	(1%)	879	892	(1%)

Geographic segments in local currency — **Year ended 30 June**

	Operating earnings before significant items[1]		
	2018	**2017**	**Change**
Australia (A$m)[2]	113	114	(1%)
Rest of World (US$m)	70	88	(20%)

[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 financial statements for the year ended 30 June 2018. Details of significant items can be found in note 4 of the financial statements.

[2] The Australia geographic segment includes corporate costs and Land Development operations in addition to that of the Australia division.

Financial Results
continued

- External revenue of $9,471 million was $72 million or 1% higher than the prior year. New Zealand revenue decreased by $161 million or 3%, but increased by $251 million or 7% excluding the Construction division. Australian revenue increased by $252 million or 9%, and in local currencies revenue increased by 6% in Australia and decreased by 1% in the Rest of World.
- In New Zealand, market conditions were robust with flat to low single digit growth compared to the prior year.
    - The distribution and materials divisions showed modest to strong revenue growth compared to the prior year, driven by both volume and pricing gains. However, this was offset by increases in input costs (especially energy), which could not be fully recovered through price increases; higher supply chain costs to alleviate capacity constraints; changes in product mix, and certain one-off costs.
    - The Residential and Development division performed strongly, with the Residential business benefiting from the number of units available to sell as subdivisions came to market as well as robust selling prices in Auckland, and the Land Development business recognising the sale of the first site at Wiri North.
    - The Construction division saw mixed results as the prior year included the finalisation of significant projects in the Infrastructure business. Higgins continued to perform strongly through participation in large scale roading projects. Revenue in B+I decreased from the prior year as projects were re-phased based on the additional provisions recognised during the year.
- In Australia, market conditions were mixed, with robust activity in Victoria and South Australia offset by continued challenging trading conditions in Western Australia. Victoria has overtaken New South Wales in the number of building consents issued. Most Australian businesses were impacted by increased input costs, particularly resin and energy, which could not be fully recovered through price increases. A contribution of $15 million from the Land Development business in Australia led to operating earnings increasing by 3% in New Zealand dollars overall compared to the prior year.
- In the Rest of World, earnings were mixed, with a strong performance from Formica in North America and Asia offset by earnings decreases in the Roof Tile Group and Construction South Pacific, due to difficult trading conditions in a number of export markets for the Roof Tile Group and a roll-off of major projects in South Pacific.
- The significant items charge of $168 million for the year related to restructuring costs of $91 million and impairment charges of $114 million, offset by gains on business divestments of $37 million. The restructuring costs and business divestments were as a result of the implementation of the new Group strategy announced on 21 June 2018.
- Funding costs of $157 million increased from $111 million in the prior year. This reflected a $16 million increase in the impact from derivative valuations compared to the prior year, an increase in interest costs from debt levels and mix, and penalty interest and fees paid on some tranches of debt following covenant breaches.
- The tax benefit of $96 million reflects the loss for the year, with the B+I loss provisions expected to be deductible in future periods.
- Earnings per share were (25.5) cents compared with 13.5 cents per share in the prior year.
- A cash inflow from operations of $396 million compared with an inflow of $243 million in the prior year. The improvement was driven primarily by higher cash conversion in the Residential business and improvements in working capital management across the Group.

In certain sections of this commentary the Group has chosen to present certain financial information exclusive of the impact of Significant Items and / or the results of the Building + Interiors (B+I) business unit, consistent with previous market guidance. Where such information is presented, it is clearly described and marked with an appropriate footnote. This allows the readers of this commentary to better understand the underlying operations and performance of the Group.

Segmental Operational Review

The following sections provide commentary on individual division results for the year ended 30 June 2018 based on the new divisional structure announced on 21 June 2018.

Building Products

Winstone Wallboards; Laminex New Zealand; Tasman Insulation; Humes; Iplex New Zealand; CSP Pacific; Altus

	Year ended 30 June			
NZ$m	**2018**	**2017**	**Change**	**Change %**
Gross revenue	764	745	19	3%
External revenue	613	589	24	4%
Operating earnings	132	152	(20)	(13%)
Funds	494	489	5	1%
Trading cashflow	142	143	(1)	(1%)

The Building Products division reported gross revenue of $764 million, an increase of 3% compared with $745 million in the prior year. The division's operating earnings were $132 million, compared with $152 million in the prior year, a reduction of 13%.

The increase in Building Products revenues was driven by higher price and volumes in selected products offsetting weaker volumes of other products. Iplex NZ's sales volumes were up 15% year on year, the price of standard and performance wallboards increased modestly and domestic glasswool selling prices were up 6%. However, domestic wall board sales volumes and glasswool tonnage sold were both down 1% and concrete pipe volumes were 9% lower than a year ago.

Demand was consistent across all sectors of the market, however, regional performance was mixed as the rate of growth in Auckland slowed and demand in Christchurch continues to rebase following higher activity levels during the earthquake rebuild period.

The contraction in operating earnings for the year is largely as a result of cost pressures, and in particular:

- Higher energy, raw material, and supply chain costs, primarily in Iplex New Zealand and Winstone Wallboards, which could not be fully recovered through price increases.
- One-off costs incurred due to storm damage in Winstone Wallboards, a fire event at the Humes Penrose site, and provisions made in the division for obsolete stock and historical claims.

Segmental Operational Review
continued

Distribution

PlaceMakers; Mico; Forman Building Systems; Snappy

			Year ended 30 June	
NZ$m	**2018**	**2017**	**Change**	**Change %**
Gross revenue	1,530	1,519	11	1%
External revenue	1,490	1,470	20	1%
Operating earnings before significant items[1]	104	104	0	0%
Significant items[2]	(3)	0	(3)	NM
Operating earnings	101	104	(3)	(3%)
Funds	264	256	8	3%
Trading cashflow	112	93	19	20%

[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 financial statements for the year ended 30 June 2018.
[2] Details of significant items can be found in note 4 of the financial statements.

The Distribution division reported gross revenue of $1,530 million compared with $1,519 million in the prior year.

PlaceMakers and Mico experienced strong market growth in regional New Zealand and a slower rate of growth in Auckland following double digit growth in recent years. However, the Christchurch market continued to contract as the market rebases itself following peak demand from the earthquake rebuild.

The division's operating earnings before significant items for the year were $104 million, which were consistent with the prior year. This result reflects earnings growth of 1% in PlaceMakers and 11% in Mico as both businesses benefitted from purchasing synergies and expanded market share in higher margin categories and sustained growth in Mico back-of-wall product categories throughout the year.

For PlaceMakers, growth categories included specialty timber, fastenings and strong promotional support in power tools, whereas Mico's earnings growth was attributable to further penetration of our own-branded bathroom ranges of Raymor and Adesso.

During the year the eCommerce platform Snappy went from initial design to transacting online with a low-cost design and operating platform, involving a total operating cost investment of $2 million. Initial trading shows encouraging margins and low operating costs.

Segmental Operational Review
continued

Steel

Easysteel (including Dimond Structural and Dimond Roofing); Pacific Coilcoaters; Fletcher Reinforcing

			Year ended 30 June	
NZ$m	**2018**	**2017**	**Change**	**Change %**
Gross revenue	532	491	41	8%
External revenue	411	378	33	9%
Operating earnings before significant items[1]	49	54	(5)	(9%)
Significant items[2]	(8)	0	(8)	NM
Operating earnings	41	54	(13)	(24%)
Funds	184	184	0	0%
Trading cashflow	55	35	20	57%

[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 financial statements for the year ended 30 June 2018.
[2] Details of significant items can be found in note 4 of the financial statements.

The Steel division reported gross revenue of $532 million compared with $491 million in the prior year.

Easysteel achieved revenue growth of 15% compared to the prior year, due to the full year impact of the acquisition of the Calder Stewart Roofing business and a 3% increase in core structural steel volumes.

Pacific Coilcoaters and Fletcher Reinforcing maintained revenue consistent with the prior year as they continued to operate their plants at high capacity levels.

The decrease in operating earnings before significant items of $5 million is primarily due to increases in the cost of steel and margin contraction in Fletcher Reinforcing. The Fletcher Reinforcing result is partly as a result of higher operating costs during its transition to a new facility in Auckland.

During the year $8 million of significant items were incurred, primarily relating to the integration of the Calder Stewart roofing business into the division, including site consolidations and co-locations across the country.

Segmental Operational Review
continued

Concrete

Winstone Aggregates; Golden Bay Cement; Firth Industries

	Year ended 30 June			
NZ$m	**2018**	**2017**	**Change**	**Change %**
Gross revenue	812	781	31	4%
External revenue	545	507	38	7%
Operating earnings before significant items[1]	90	113	(23)	(20%)
Significant items[2]	(17)	0	(17)	NM
Operating earnings	73	113	(40)	(35%)
Funds	628	621	7	1%
Trading cashflow	128	142	(14)	(10%)

[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 financial statements for the year ended 30 June 2018.
[2] Details of significant items can be found in note 4 of the financial statements.

The Concrete division reported gross revenue of $812 million compared with $781 million in the prior year. The 4% increase has resulted from improved sales volumes across all business units.

Aggregates revenue was up 7% on the prior year driven by both improved pricing and volume increases of 6%, albeit weighted to lower margin products. Investment continued to develop the existing quarry footprint to meet current demand and position well for sustained demand expected in FY19.

Cement revenue was consistent with the prior year driven by domestic sales volumes which grew 4% on the prior year, supported by a 3% increase in manufacturing volumes setting a new production record, and market share continued to be strong.

Ready mix revenue was up 6% on the prior year driven by a 2% increase in sales volumes and pricing gains. Ready mix market share is estimated to have increased 1% in the period.

Operating earnings before significant items were $90 million compared to $113 million in the prior year. When excluding the prior year gain of $12 million on sale of a Firth property, divisional earnings reduced by 11% driven mainly by a contraction in gross margin.

Gross margin contraction is largely a result of the following factors:

- Increased energy and supply chain costs impacted all businesses, particularly Golden Bay Cement;
- Input cost increases were not able to be fully passed onto the market due to strong price competition, particularly in cement;
- Costs associated with the commissioning of new plants in Firth ready mix and masonry, which have been developed to strengthen Auckland capability
- The increased demand for aggregates has led to additional costs incurred to alleviate capacity constraints and support the increased volumes.

The division recognised a charge of $17 million to significant items during the year as a strategic review identified an impairment of a previously mothballed quarry.

Segmental Operational Review
continued

Residential and Development

Residential; Land Development

				Year ended 30 June
NZ$m	**2018**	**2017**	**Change**	**Change %**
Gross revenue	575	420	155	37%
External revenue	575	420	155	37%
Operating earnings	136	130	6	5%
Funds	604	547	57	10%
Trading cashflow	109	(49)	158	NM

			Year ended 30 June
			Operating earnings
NZ$m	**2018**	**2017**	**Change**
Residential	85	76	12%
Land Development	51	54	(6%)
Total	136	130	5%

The Residential and Development division reported $575 million of gross revenue for the year, an increase of 37% compared to the prior year. Operating earnings of $136 million increased by 5% from $130 million in the prior year.

Residential operating earnings were $85 million, 12% higher than the prior year. There was an increase in the volumes of units sold to 714 in FY18 from 499 in FY17. This reflected an increase in the number of units available to sell as the established subdivisions of Swanson, Whenuapai and Red Beach are now operating at a sustainable level and new subdivisions of Waiata Shores, Kowhai Ridge, Totara Heights, and Atlas Quarter commenced sales.

During the year a $12 million provision was recognised for a forecast loss on the Atlas Quarter Apartment project in Christchurch. This reflects a combination of lower than expected selling prices and cost escalations on the project, mainly due to seismic requirements and higher than forecast construction market rates. At year end $10 million of this provision remained unutilised following initial sales. Excluding the impact of this provision, Residential earnings were up $21 million, or 28%, on the prior year.

The Residential business continued to see strong demand for homes in Auckland priced between $600,000 and $900,000, where the depth of market demand is greatest, but softer demand for large standalone homes priced in excess of $1,000,000. This supports a strategy of focusing on delivering smaller and innovative home typologies to target a lower price point.

The Christchurch market remained subdued with no growth in prices over the period. Work commenced on the East Frame project, with an initial 112 units underway. The next anticipated stage will include a further 59 terrace homes, and the decision on further stages of this development will depend on discussions with Government on typologies and market conditions.

In the second half of the financial year, Residential continued to see an elevated number of transactions requiring the sale of the customer's current home due to bridging finance restrictions. The average settlement period lengthened to 43 days from 32 days in FY17.

At 30 June 2018, the Residential business held a total of 3,707 lots on balance sheet. In addition, the business holds a further 1,272 units under unconditional agreements, to be delivered over the next five years.

Land Development operating earnings in the period were $51 million. This business develops and sells mainly commercial sites within the Group's property portfolio which are surplus to operating requirements. The most significant contribution to this year was the sale of a 10 hectare site in June 2018 at the Wiri North development, in addition to three development locations in Australia.

Whilst Land Development earnings will be irregular in nature, it is anticipated that the business will earn at least $25 million per annum over the next five years.

Funds employed in the division increased to $604 million from $547 million at 30 June 2017, reflecting an increase in work in progress and land in both the Residential and Land Development businesses.

Trading cashflow for the division was an inflow of $109 million compared to an outflow of $49 million in the prior year. The improvement of $158 million was due to a reduction in the acquisition of land compared to the prior year.

Segmental Operational Review
continued

Construction

Infrastructure; Building + Interiors (B+I); South Pacific; Brian Perry Civil; Higgins

				Year ended 30 June
NZ$m	**2018**	**2017**	**Change**	**Change %**
Gross revenue	1,685	2,246	(561)	(25%)
External revenue	1,605	2,085	(480)	(23%)
Operating earnings before significant items[1]	(608)	(204)	(404)	NM
Significant items[2]	(5)	0	(5)	NM
Operating earnings	(613)	(204)	(409)	NM
Funds	(238)	174	(412)	NM
Trading cashflow	(172)	(103)	(69)	67%

			Year ended 30 June
	Operating earnings before significant items[1]		
NZ$m	**2018**	**2017**	**Change**
Higgins	42	39	8%
Infrastructure, South Pacific, Brian Perry Civil	10	49	(80%)
Subtotal	52	88	(41%)
B+I	(660)	(292)	NM
Total	(608)	(204)	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 financial statements for the year ended 30 June 2018.
[2] Details of significant items can be found in note 4 of the financial statements.

The Construction division reported an operating loss before significant items of $608 million compared with a loss of $204 million in the prior year. This included a loss for the period in B+I of $660 million which reflects loss provisions taken on a number of major projects during the year. Operating earnings before significant items excluding B+I were $52 million compared to $88 million in the prior year.

The division recorded gross revenues of $1,685 million compared to $2,246 million in the prior year. The decrease reflects the completion of a number of major projects in the B+I, Infrastructure and South Pacific business units plus the re-phasing of several B+I projects to reflect revised completion dates. At 30 June 2018 the backlog of work for the division, being the value of contracted work awarded but not completed, was $1,784 million.

Given the scale of the challenges in B+I the primary focus continues to be on project completion. As announced to the market in February 2018 B+I has ceased bidding for vertical construction work in New Zealand. Operations remain focused on project completion and delivery, with headcount reducing during the year as projects are completed. Of the 16 key B+I projects, 7 were completed prior to 30 June 2018, with a further 3 forecast to be completed by 31 December 2018. The remaining 6 projects are expected to be completed during the 2019 calendar year.

Earnings in the Higgins business unit (which includes Higgins Fiji) increased by 8% reflecting a strong operating performance. The business continues to perform well through many of its New Zealand branches, including Auckland, and ongoing participation in the North Canterbury Transport Infrastructure Recovery (NCTIR) Alliance in response to the Kaikoura earthquakes also contributed positively during the year. The next stage of this project was recently agreed and Higgins ongoing participation was secured.

Infrastructure and South Pacific earnings were impacted by the completion of major projects in the prior period, notably the Waterview Connection in Auckland, the McKays to Peka Peka Expressway, and a number of major projects in Fiji and Papua New Guinea. In addition risks and forecast cost increases were identified on the Puhoi to Warkworth project, associated principally with earthworks and aggregate supply on the project. The project is a 50-50 joint venture between Fletcher Construction and Acciona. The partners are working actively on a range of options to mitigate these risks. At this point, Fletcher Building is reporting a nil margin for the project.

Trading cashflows for the division for the year were an outflow of $172 million compared to $103 million in the prior year. Excluding the B+I business, trading cashflows were an inflow of $113 million compared to an inflow of $65 million in the prior year.

Segmental Operational Review
continued

Australia

Building Products Australia: Laminex Australia; Iplex Australia; Rocla; Fletcher Insulation.
Distribution Australia: Tradelink; Tasman Sinkware.
Steel Australia: Stramit.

				Year ended 30 June
NZ$m	**2018**	**2017**	**Change**	**Change %**
Gross revenue	3,076	2,858	218	8%
External revenue	2,973	2,771	202	7%
Operating earnings before significant items[1]	114	119	(5)	(4%)
Significant items[2]	(49)	(251)	202	80%
Operating earnings	65	(132)	197	NM
Funds	1,804	1,778	26	1%
Trading cashflow	146	143	3	2%

			Year ended 30 June
	Operating earnings before significant items[1]		
NZ$m	**2018**	**2017**	**Change**
Building Products Australia	76	84	(10%)
Distribution Australia	13	10	30%
Steel Australia	25	25	0%
Total	114	119	(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 financial statements for the year ended 30 June 2018.
[2] Details of significant items can be found in note 4 of the financial statements.

The Australian division reported gross revenue of $3,076 million compared with $2,858 million in the prior year, an increase of 8%. All businesses recorded positive sales growth. Operating earnings before significant items were $114 million, a decrease of $5 million or 4% on the prior year.

Building Products Australia reported gross revenue growth of 9%, however, operating earnings before significant items decreased by 10%, driven by a reduction in earnings in Laminex Australia and Fletcher Insulation offset by increases in Iplex Australia and Rocla. Despite gross revenue growth of 4% in Laminex Australia, reduced earnings resulted from energy cost increases and increased material input costs. Fletcher Insulation grew sales in the year by 8%, however, redundancy payments associated with structural reorganisation ($5 million) and other transitional costs reduced operating earnings in FY18 but will result in lower costs in future periods. Iplex Australia delivered a 13% increase in gross revenue and robust year on year earnings growth despite sizeable increases in energy and raw material costs. Rocla continued to underperform due to operational issues.

Distribution Australia recorded gross revenue increases of $59 million, or 8%, in the year with operating earnings growth of 30%. Tradelink grew sales by 4% in local currency in a declining market with 19 new store openings or relocations and positive sales growth in the small to medium network customer market segments. Tradelink successfully delivered on procurement strategies and controlled operating costs to deliver positive earnings growth of 62% in local currency in the year. Tasman Sinkware grew gross revenue by 20% and repeated its trend of annual earnings growth, based on a strategic shift to being both a manufacturer and master distributor of products.

Steel Australia reported gross revenue increases of 3%. Operating earnings before significant items were stable with operating cost increases not fully recovered though market price increases. Manufacturing site consolidations in late FY18 will deliver reduced operating costs for the business in the future.

Significant items include a $40 million impairment of the carrying value of the Rocla business, following a revision of expected medium-term earnings.

Segmental Operational Review continued

Formica and Roof Tile Group

Formica; Roof Tile Group

NZ$m	2018	2017	Change	Change %
				Year ended 30 June
Gross revenue	1,177	1,120	57	5%
External revenue	1,151	1,101	50	5%
Operating earnings before significant items[1]	65	79	(14)	(18%)
Significant items[2]	(57)	0	(57)	NM
Operating earnings	8	79	(71)	(90%)
Funds	1,244	1,174	70	6%
Trading cashflow	110	90	20	22%

	Year ended 30 June		
	Operating earnings before significant items[1]		
NZ$m	2018	2017	Change
Formica	75	74	1%
Roof Tile Group	(2)	13	NM
Divisional costs	(8)	(8)	0%
Total	65	79	(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 financial statements for the year ended 30 June 2018.
[2] Details of significant items can be found in note 4 of the financial statements.

The division reported gross revenue of $1,177 million for the year, an increase of 5% on the prior year. Operating earnings before significant items were $65 million, down by 18%, driven by significant deterioration in the performance of the Roof Tile Group.

Formica achieved gross revenue of $1,030 million, up by 8% on the prior year, while in domestic currencies it increased by 4%. Formica's operating earnings excluding significant items were $75 million, up by 1% reflecting good growth in North America and Asia offset by a small decline in Europe.

In Formica North America, gross revenue in local currencies increased by 3% driven by new products such as anti-finger print laminate, and continued improvements in operational performances at the two manufacturing sites. These also led to the 3% increase in operating earnings excluding significant items.

In Asia, gross revenue in local currency was up by 8%. This was driven by China which was up by 29% on the prior year with ASEAN and Taiwan both stable. Operating earnings excluding significant items increased by 24%, driven by revenue growth and improved manufacturing efficiencies, especially at the two manufacturing facilities in China.

In Europe, gross revenue in domestic currency was flat compared to the prior year - the UK, Spain, and Germany grew by 4%, 6%, and 18% respectively, offset by declines in Benelux and France. Operating earnings were lower than the prior year due to adverse product mix, highly competitive market conditions, and increased investment in commercial footprint.

The Roof Tile Group's gross revenue in local currencies was down by 15% on the prior year. This was attributable to continuing soft economic conditions in Africa, loss of volume in Japan as a key customer moved to dual supply, poor weather leading to reduced activity in the USA and softening of demand in New Zealand. This led to an operating earnings loss before significant items of $2 million, down by $15 million on the prior year.

Significant items include a $52 million impairment of the carrying value of Roof Tile Group, following a review of recoverable values as part of the divestment process currently being undertaken.

Financial Review

Group Cash Flow

	Year ended 30 June					
	As reported			Excluding B+I		
NZ$m	**2018**	**2017**	**Change**	**2018**	**2017**	**Change**
Operating earnings before significant items[1]	**50**	**525**	**(475)**	**710**	**817**	**(107)**
Depreciation and amortisation	214	203	11	214	203	11
Provisions, significant items and other	(55)	(85)	30	(58)	(82)	24
Trading cashflow before working capital movements	**209**	**643**	**(434)**	**866**	**938**	**(72)**
Land and developments	11	(99)	110	11	(99)	110
Contracts	396	74	322	4	(52)	56
Other working capital movements	23	(151)	174	43	(152)	195
Working capital movements	430	(176)	606	58	(303)	361
Trading cashflow	**639**	**467**	**172**	**924**	**635**	**289**
Less: cash tax paid	(85)	(99)	14	(85)	(99)	14
Less: interest paid	(158)	(125)	(33)	(158)	(125)	(33)
Cash flows from operating activities	**396**	**243**	**153**	**681**	**411**	**270**

[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 financial statements for the year ended 30 June 2018.

Cash flow from operating activities of $396 million were 63% higher than the prior year. Trading cash-flows after working capital movements were $639 million, up from $467 million. Excluding B+I, trading cash-flows were $924 million, up from $635 million.

Working capital inflows of $430 million were considerably higher than the prior year. This was partly due to the positive balance for contracts, largely reflecting the losses recognised but not yet incurred as cash in the Construction division. Excluding contracts, working capital inflows were higher by $284 million, reflecting both improved cash conversion in the Residential business and improved working capital across our manufacturing and distribution divisions who focussed particularly on receivables and inventory management.

Capital expenditure was $304 million, compared with $319 million in the prior year. Of this total, $214 million was for stay-in-business capital projects and $90 million related to new growth initiatives.

Funding

On 14 February 2018, the Group announced that due to the additional losses in the B+I business the Group had breached key banking covenants under both its banking syndicate and United States Private Placement ('USPP') agreements.

On 15 May 2018 the Group advised that it had agreed a permanent solution to these breaches.

The key terms agreed under both the Syndicated Facility Agreement ('SFA') and the USPP note and guarantee agreements are as follows:

- Previously announced B+I losses to be excluded from covenant calculations;
- Revised covenants: senior leverage ratio <3.25x; senior interest cover >3.00x; total interest cover >2.00x:
- Until the earlier of 30 June 2019 or the date on which the senior leverage ratio (including the previously announced B+I losses) is less than 1.75x for three consecutive months:
  - additional margin payable of 1.25% p.a. ; and,
  - proceeds from disposals of assets above a threshold must be first offered for repayment of senior debt.
- After 30 June 2019 or when the senior leverage ratio (including the previously announced B+I losses) is less than 1.75x for three consecutive months: pricing for one of the three SFA tranches reverts to pricing applicable as at December 2017 and pricing for the other SFA tranches reduces to market pricing (rather than the previous pricing level, which was below market pricing); and pricing for all USPP notes reverts to pricing applicable as at December 2017.

For the SFA, the Company elected to reduce its total available facilities from $1,270 million to $925 million, with no change to the maturity of these remaining facilities.

For the USPP, there has been no prepayment of any notes, all existing facilities have been maintained and there is no change to the maturity of the facilities. There is also no change to underlying margin payable on USPP notes, other than the 1.25% additional margin outlined above which will cease to be payable no later than 30 June 2019.

The net proceeds from the equity raise of NZ$727m were applied to the repayment of senior debt under the SFA. Following this repayment, and as at 30 June 2018, the Company's gross borrowings (net of derivatives and exclusive of fair value adjustments) were $1,877 million and total available debt facilities were $2,705 million.

Following the equity raise the Group's gearing[1] at 30 June 2018 was 23.5% compared with 35.3% at 30 June 2017.

The Group's leverage[2] at 30 June 2018 was 4.8 times compared with 2.7 times at 30 June 2017. Whilst outside the target range of 1.5 - 2.5 times, the expectation is that this will return to within the range in 2019. Leverage at 30 June 2018 excluding B+I was 1.4 times.

The average maturity of the Group's debt at 30 June 2018 is 4.7 years and the hedged currency split is 36% Australian dollar; 43% New Zealand dollar; 13% US dollar; and 8% spread over various other currencies.

Approximately 56% of all borrowings have fixed interest rates with an average duration of 3.1 years and a rate (based on year end borrowings) of 7.3%. Inclusive of floating rate borrowings, the average interest rate on the debt (based on year end borrowings) is 6.2%.

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 EBITDA before significant items

Outlook

Market Activity

In New Zealand activity in the residential sector is expected to decline slightly in FY19, mainly reflecting a forecast modest decline in the number of new residential dwelling consents being issued from 32,860 in FY18. Activity levels in the non-residential, commercial and infrastructure sectors are expected to increase modestly as large roading contracts are completed and the backlog of significant commercial projects unwinds.

Australian residential activity is forecast to decline as a result of a sharp slowdown in multi-unit dwellings, tightening of bank lending and restrictions on foreign ownership. Infrastructure on the Eastern Seaboard looks set to benefit from large state and federal funded infrastructure projects.

Business Performance

Group EBIT (excluding B+I and significant items) is expected to be broadly stable in FY19, except for Land Development earnings which are likely to be lower. The following outlook comments can be made by business area:

- New Zealand materials and distribution businesses (Building Products, Distribution, Steel, Concrete): revenue is expected to grow at or slightly ahead of the broader market, with a focus on maintaining strong market share positions and entering new product adjacencies. Input cost pressures (especially in energy and imported raw materials) are expected to continue, with the businesses focused on sustaining margins through price optimisation, operational efficiencies and overhead cost control.

- Residential and Land Development: in the Fletcher Living housing business, FY19 is expected to see an increase in the number of houses built and sold from the levels reported in FY18 with a commensurate increase in revenues, however margins are expected to be diluted by a relatively higher level of sales in the Christchurch region. Investment in land plus work in progress will be made to support Fletcher Living's forward pipeline, and will result in an increase in funds invested. In Land Development, earnings are expected be lower than those reported in FY18, returning towards the c $25 million per year level given in prior guidance.

- Construction: with the B+I losses provided for, earnings in broader Construction business are expected to remain stable, with a continued strong contribution from Higgins.

- Australia: the Australia division is forecast to grow revenue above market rates due to product development, opening new stores and entering adjacencies. EBIT in the near term is likely to show some improvement due to revenue gains plus continued operational turnaround of Australian operations.

- Formica and Roof Tile Group: the focus remains firmly on the divestment of the Roof Tile Group and Formica businesses. Both transactions are expected to complete in FY19. Formica's earnings in FY19 will be aided by a reduction in its share of centralised management costs, which to an extent had previously been allocated pro-rata based on headcount and revenues. It is expected that EBIT will increase compared to FY18.

- Corporate: the Group's corporate overhead costs are likely to be in the range of $45m to $55m in FY19.

- Funding: funding costs are expected to be $145m to $155m in FY19, broadly consistent with FY18. Lower debt levels will be offset by penalty interest rates and temporary additional fees paid on the Group's borrowings for at least the first half of the year.

Divisions

Division	Business Groupings	Key Businesses
Building Products		Winstone Wallboards Laminex New Zealand Tasman Insulation Humes Iplex New Zealand CSP Pacific Altus
Distribution		PlaceMakers Mico Plumbing Forman Building Systems Snappy
Steel		Easysteel (including Dimond Roofing and Dimond Structural) Pacific Coilcoaters Fletcher Reinforcing
Concrete		Winstone Aggregates Golden Bay Cement Firth Industries
Residential and Land Development		Residential Land Development
Construction		Infrastructure Building + Interiors (B+I) South Pacific Brian Perry Civil Higgins
Australia	Building Products Australia	Laminex Australia Iplex Australia Rocla Fletcher Insulation
	Distribution Australia	Tradelink Tasman Sinkware
	Steel Australia	Stramit
Formica and Roof Tile Group	Formica	Formica Asia Formica Europe Homapal Formica North America
	Roof Tile Group	Gerard Roofing Systems (NZ / Asia / Europe) DECRA Roofing Systems (USA)

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 for the consolidated Group.

Residential and Development — Year ended 30 June

Gross revenue	2018	2017	Change %
New Zealand (NZ$m)	528	418	26%
Australia (A$m)	43		NM
Rest of World (US$m)		1	NM

Construction — Year ended 30 June

Gross revenue	2018	2017	Change %
New Zealand (NZ$m)	1,550	2,049	(24%)
Rest of World (US$m)	96	140	(31%)

Australia — Year ended 30 June

Gross revenue	2018	2017	Change %
New Zealand (NZ$m)	2	2	0%
Australia (A$m)	2,834	2,701	5%
Rest of World (US$m)	1	3	(66%)

Formica and Roof Tile Group — Year ended 30 June

Gross revenue	2018	2017	Change %
New Zealand (NZ$m)	34	35	(3%)
Rest of World (US$m)	815	773	5%

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 for the consolidated Group.

Residential and Development — Year ended 30 June

External revenue	2018	2017	Change %
New Zealand (NZ$m)	528	418	26%
Australia (A$m)	43		NM
Rest of World (US$m)		1	NM

Construction — Year ended 30 June

External revenue	2018	2017	Change %
New Zealand (NZ$m)	1,476	1,888	(22%)
Rest of World (US$m)	92	140	(34%)

Australia — Year ended 30 June

External revenue	2018	2017	Change %
New Zealand (NZ$m)	1	2	(50%)
Australia (A$m)	2,740	2,619	5%
Rest of World (US$m)	1	2	(50%)

Formica and Roof Tile Group — Year ended 30 June

External revenue	2018	2017	Change %
New Zealand (NZ$m)	48	51	(6%)
Rest of World (US$m)	786	749	5%

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 for the consolidated Group.

Residential and Development — Year end 30 June

Operating earnings[1]	2018	2017	Change %
New Zealand (NZ$m)	121	128	(5%)
Australia (A$m)	14		NM
Rest of World (US$m)		1	NM

Construction — Year end 30 June

Operating earnings[1]	2018	2017	Change %
New Zealand (NZ$m)	(636)	(241)	NM
Rest of World (US$m)	20	26	(23%)

Australia — Year end 30 June

Operating earnings[1]	2018	2017	Change %
New Zealand (NZ$m)	1		NM
Australia (A$m)	105	113	(7%)
Rest of World (US$m)	(1)		NM

Formica and Roof Tile Group — Year end 30 June

Operating earnings[1]	2018	2017	Change %
New Zealand (NZ$m)	3	5	(40%)
Australia (A$m)	(4)	(4)	0%
Rest of World (US$m)	47	57	(18%)

[1] Operating earnings before significant items - a non-GAAP measure used by management to assess the performance of the business, derived from Fletcher Building Limited's financial statements for the year ended 30 June 2018. Details of significant items can be found in note 4 of the financial statements.