

Fletcher Building Limited

2024 Interim Financial Results



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Fiona Thornley, Mel Henshaw and project manager Jasmin Lawrence (L-R) examine plans as New Zealand's first all-female residential home build gets underway in Whenuapai, Auckland. The Project named 'BUILdHers' is set to challenge stereotypes by providing female tradespeople with a platform to

show what is possible and encourage women interested in a career in building and construction to give it a go.

When used in these Interim Financial Results, references to the 'Company' are references to Fletcher Building Limited. References to 'Fletcher Building' or the 'Group' are to Fletcher Building Limited, together with its subsidiaries and its interests in associates and joint ventures. References to \$ and NZ\$ are to New Zealand dollars unless otherwise stated.



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Chair and CEO's Review

We are pleased to report Fletcher Building's financial results for the six months ended 31 December 2023 (HY24).

Against the backdrop of materially weaker trading conditions, particularly in the NZ residential sector where volumes declined 20%, Group revenue of \$4,248 million was in line with the prior period's \$4,284 million. EBIT before significant items was \$264 million compared to \$360 million in the prior period. The Group reported a net loss after tax of \$120 million compared to a profit of \$92 million in the prior period. Disappointingly, the result was heavily impacted by the \$165 million significant items provision on the New Zealand International Convention Centre and a \$122 million non-cash impairment and write-down on the Tradelink® Australia business. Cash flows from operating activities for the Group were an outflow of \$126 million, compared to an outflow of \$203 million in the prior period.

Solid trading performance in a tough environment

Overall, market volumes for our materials and distribution businesses declined by 15% and 8% in New Zealand and Australia respectively. In this more challenging trading environment, we continued to focus on maintaining pricing disciplines and managing cost and efficiency initiatives to help offset increased competitive intensity and ongoing inflationary pressure. Gross margins in the New Zealand materials and distribution divisions remained robust at 29.3% compared to 30.3% in HY23. In Australia, effective price disciplines and a shift toward higher-margin products saw the gross margin lift to 33.1% compared to 31.9% in HY23.

A full review of the Australian Tradelink® business over the half year combined with disappointing results led to a \$122 million non-cash impairment and write-down in its carrying value. We have concluded that whilst we believe there is a compelling opportunity for Tradelink®, further ownership of the business is not in line with the strategic objectives of Fletcher Building. Consequently, we intend to commence a divestment process for Tradelink® shortly.

For our Residential and Development division, the house sales market was encouraging, with improved buyer activity, especially first-home buyers, and a stabilising of house prices after 18 months of decline. The combination of the quality of the communities and product we develop, and with a skew towards a lower average unit price, meant we continued to sell good volumes, ahead of HY23, at solid margins.

Perth plumbing update

Regarding the ongoing Perth plumbing issues, our testing and expert reports on causation continue to show that the leaks are caused by installation failures and that there is no manufacturing defect. We remain committed to developing and implementing a workable and appropriate industry solution. As per our detailed disclosure notes, risks remain on this matter.

Progress on non-financial targets

Achieving our non-financial targets across the Group remains a high priority. After several years of continued improvement, our safety performance remains best-in-class globally. Our Total Recordable Injury Frequency Rate (TRIFR) in the half was 3.5 compared to 3.1 in FY23 and we recorded one serious injury. Pleasingly, 94% of our sites and five of our Business Units were injury free in the period, proving that achieving 'zero injuries' is possible - a commitment we drive for on all our sites, for our people and teams.

We are tracking well on our sustainability measures and our work continues to be recognised as leading our sector by the Carbon Disclosure Project and the Dow Jones Sustainability Index. Our carbon emissions reduced by 17% from the 2018 baseline year, showing good progress towards our goal to reduce our emissions by 30% by 2030. We are similarly making headway in our commitment to Net Zero carbon emissions by 2050, working with suppliers to reduce their (Scope 3) emissions.

Customers are responding positively to our continued focus on product and service offerings. Our Net Promoter Score of 48 improved significantly by 8 points from FY23 and indicates we are on track as we drive towards our target NPS ≥ 55.

Overall employee engagement continues to strengthen, with an eNPS of 30, up four points since FY23 and getting closer to the industry upper quartile target eNPS of 40.

Chair and CEO's Review (cont.)

Construction cost provisions on legacy projects

On the final Construction legacy projects, we were disappointed to announce further cost provisions as we near completion of these projects. A provision of \$165 million was made on the New Zealand International Convention Centre and Hobson Street Hotel project ("NZICC"). On the significantly complex and challenging post-fire rebuild project, actual and expected costs to complete have increased, principally in the areas of steel remediation, internal fit-out and to accommodate the higher levels of specialist subcontractor resource required. The project remains on track for completion by the end of the calendar year, and significant milestones have been met including: the completion of the carparks and the Horizon Street Hotel is set for handover this month. On the Wellington International Airport Limited carpark, we consider that we have an appropriate technical solution that can be implemented to remediate quality issues. The \$15 million provision reflects these expected remediation costs.

Managing through the cycle

Given the current market conditions, the expected legacy construction cash outflows and in line with the Company's dividend policy, the Board has made the decision to not declare and pay an interim dividend. To further support our balance sheet settings, we are also prudently managing our capital expenditure, and have taken the decision to rephase some of our future growth investments.

As we look ahead to the remainder of the year, we expect FY24 Group EBIT before significant items to be in a range of \$540 million to \$640 million, with the mid-point assuming a continuation of current market conditions for the balance of FY24.

We are well positioned to perform through the cycle and then drive both further performance improvements and upside volumes when the cycle turns.

We wish to express our appreciation to our dedicated team for their hard work and commitment, to our customers for their trust and loyalty, and to our shareholders for their ongoing support. We look forward to the second half of the year and to sharing the full year results in August.



Bruce Hassall
Chair



Ross Taylor
CEO

Group Performance

NZ\$M	Six months ended 31 December 2023	Six months ended 31 December 2022
Revenue	4,248	4,284
EBIT before significant items ⁽¹⁾	264	360
Significant items ⁽²⁾	(308)	(154)
EBIT	(44)	206
Lease interest expense	(32)	(30)
Funding costs	(62)	(39)
Earnings/(loss) before tax	(138)	137
Tax benefit/(expense)	21	(34)
Earnings/(loss) after tax	(117)	103
Non-controlling interests	(3)	(11)
Net earnings/(loss)	(120)	92
Net earnings/(loss) before significant items	117	203
Basic earnings per share (cents)	(15.3)	11.7
Basic earnings per share before significant items (cents)	14.9	25.9
Dividends declared per share (cents)		18.0
Cash flows from operating activities	(126)	(203)
Capital expenditure	188	247
Investments	7	66

Revenue (NZ\$M)	Six months ended 31 December 2023	Restated ⁽³⁾ Six months ended 31 December 2022
Building Products	703	768
Distribution	836	965
Concrete	567	554
Australia	1,444	1,534
Materials and distribution	3,550	3,821
Residential and Development	351	219
Construction	699	650
Other	6	5
Gross revenue	4,606	4,695
Less: intercompany revenue	(358)	(411)
External revenue	4,248	4,284

(1) EBIT 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 consolidated interim financial statements for the period ended 31 December 2023. Further details of Significant items can be found in **note 2.1** of the consolidated interim financial statements.

(2) Further details of significant items can be found in **note 2.1** of the consolidated interim financial statements.

(3) The comparatives have been restated as a result of a change in segmental reclassification. Humes® Pipeline Systems which was previously under the Building Products division has been re-presented under the Concrete division. This results in an increase to the Concrete division and decrease in Building Products division of the comparative Gross Revenue (December 2022: \$67 million), External Revenue (December 2022: \$65 million), EBIT before significant items (December 2022: \$7 million), Funds base (December 2022: \$141 million), Depreciation, depletion and amortisation expense (December 2022: \$3 million) and Capital expenditure (December 2022: \$1 million) recognised.

Note: External revenue includes income from the Group's Vertical Buildings Business (December 2023: \$51 million; December 2022: \$52 million; June 2023: \$104 million), which the Group is in the process of exiting. The New Zealand International Convention Centre and Hobson Street Hotel (NZICC) represents the largest project to complete in this sector. EBIT before significant items, however, excludes any earnings from these projects.

Group Performance (cont.)

NZ\$M	EBIT		EBIT before significant items ⁽¹⁾	
	Six months ended 31 December 2023	Restated ⁽²⁾ Six months ended 31 December 2022	Six months ended 31 December 2023	Restated ⁽²⁾ Six months ended 31 December 2022
Building Products	72	106	78	111
Distribution	35	65	35	65
Concrete	72	82	70	81
Australia	(47)	82	78	82
Materials and distribution	132	335	261	339
Residential and Development	41	49	41	49
Construction	(180)	(145)	(1)	5
Corporate and other	(37)	(33)	(37)	(33)
Total EBIT	(44)	206	264	360
Lease interest expense	(32)	(30)	(32)	(30)
Funding costs	(62)	(39)	(62)	(39)
Earnings/(loss) before tax	(138)	137	170	291
Tax benefit/(expense)	21	(34)	(50)	(77)
Earnings/(loss) after tax	(117)	103	120	214
Non-controlling interests	(3)	(11)	(3)	(11)
Net earnings/(loss)	(120)	92	117	203

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Group Overview

External revenue of \$4,248 million was broadly in line with the prior period's \$4,284 million. EBIT before significant items was \$264 million, compared to \$360 million in the prior period. Group net earnings were a loss of \$120 million, compared to a profit of \$92 million reported in the prior period. Cash flows from operating activities were an outflow of \$126 million, compared to a \$203 million outflow in the prior period. Return on Funds Employed (ROFE) was 13.8%, compared to 17.8% in the prior period.

Trading conditions in HY24 were materially weaker. In New Zealand, market volumes for the materials and distribution divisions (Building Products, Concrete and Distribution) were 15% lower compared to HY23. This was mainly due to a decline in the residential sector, where market volumes reduced by c. 20%. The New Zealand commercial and infrastructure sectors were relatively solid, however the rural market was notably weaker due to reduced agricultural expenditure. For the Residential and Development division, the house sales market was a relative bright spot in New Zealand, with improved buyer activity (especially first-home buyers) and a stabilising of house prices after 18 months of decline. In Australia, market volumes were 8% lower overall, with residential finishing trades being the most robust sector. Across New Zealand and Australia, the weaker trading conditions led to an intensification of price competition, while cost inflation remained above long-run averages.

In a more challenging trading environment, the New Zealand materials and distribution divisions performed solidly. Gross revenues were 8% (or \$181 million) lower than the prior period, which compared to a market volume decline of 15%. The key driver of the lower revenues was the weaker residential sector, to which the divisions have a 60% exposure. Their gross margin remained robust at 29.3% (HY23: 30.3%), with the reduction versus HY23 primarily due to a shift in revenue mix towards the lower-margin commercial and infrastructure sectors. The divisions proactively managed price and cost (fixed and variable) to help offset increased competitive intensity and ongoing inflation of c. +5% p.a. Overhead costs across the divisions were 1% lower than HY23, notwithstanding the inflationary pressure and the addition of the Tumu, Waipapa and The Urban Quarry® businesses. EBIT before significant items for the three divisions was \$183 million (HY23: \$257 million) and EBIT margin was 8.7% (HY23: 11.2%). These reductions were primarily due to the impact of lower revenues in a weaker market environment (c. \$90 million EBIT impact across the three divisions).

The Australia division performed well, delivering EBIT and EBIT margin broadly in line with HY23 despite a softer market. EBIT before significant items was \$78 million compared to \$82 million in the prior period. Effective price governance and a shift toward higher-margin products saw gross margin lift to 33.1% (HY23: 31.9%) and overhead costs were 3% lower than the prior period. Disappointingly, poor results in the Tradelink® business led to a \$122 million non-cash impairment and write-down in its carrying value, classified as a Significant item.

The Residential and Development division delivered EBIT of \$41 million, compared to \$49 million in the prior period. Fletcher Residential increased EBIT to \$41 million (HY23: \$33 million), with 419 units taken to profit compared to 189 in HY23. HY23 EBIT included a one-off gain of \$9 million from investment property revaluations. Excluding this gain in the prior period, EBIT margin for Fletcher Residential was relatively stable between the periods: 11.4% in HY24 compared to 12.8% in HY23. Industrial Development reported nil EBIT for HY24 compared to \$16 million in the prior period, with some small sales expected in this business in the second half of FY24.

The Construction division reported an EBIT loss before significant items of \$1 million, compared to \$9 million in the prior period (prior to elimination of intra-Group margin in relation to Winstone Wallboards® Tauriko plant). The HY24 results were particularly impacted by rework costs in the Higgins® roading business. The orderbook position at HY24 remained solid at \$2.5 billion, compared to \$2.8 billion at 30 June 2023 and is expected to support improved work volumes over the next 24 months. Disappointingly, a further provision of \$165 million was required on the New Zealand International Convention Centre and Hobson Street Hotel (NZICC) project and \$15 million on the Wellington International Airport Limited (WIAL) carpark. The division remains on track to complete the NZICC project by the end of calendar year 2024. Cost and revenue risk of legacy projects will remain until completion and claims for recoveries are likely to take until FY25-26 to settle.

Across the Group, significant item charges in HY24 totalled \$308 million, mainly comprising the additional legacy construction provisions and Tradelink® business asset impairment and write-down.

Net interest expense for the Group was \$94 million in the period, of which \$62 million related to funding costs and \$32 million related to lease expenses. Tax benefit was \$21 million in the period compared to an expense of \$34 million in the prior period, and the effective tax rate (excluding significant items) in HY24 was 29.4%.

Basic earnings per share were (15.3) cents for the period, compared to 11.7 cents in the prior period. Excluding the impact of significant items, earnings per share were 14.9 cents, compared with 25.9 cents reported in the prior period.

Note: EBIT, EBIT margin and Trading Cash Flow are before significant items.

Group Overview (cont.)

Cash flow (NZ\$M)	Six months ended 31 December 2023	Six months ended 31 December 2022
EBIT before significant items ⁽¹⁾	264	360
Depreciation and amortisation	191	180
Lease principal payments and lease interest paid	(132)	(127)
Provisions and other	1	(19)
Trading cash flow before working capital movements	324	394
Working capital movements	(148)	(457)
Trading cash flow excluding significant items and legacy projects	176	(63)
Legacy projects cash flow	(295)	(28)
Significant items cash flow	(29)	(16)
Trading cash flow	(148)	(107)
Add: lease principal repayments	100	97
Less: cash tax paid	(21)	(154)
Less: funding costs paid	(57)	(39)
Cash flows from operating activities	(126)	(203)

(1) EBIT 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 consolidated interim financial statements for the period ended 31 December 2023. Further details of Significant items can be found in **note 2.1** of the consolidated interim financial statements.

Group cash flows

Cash flows from operating activities for the Group were an outflow of \$126 million, compared to an outflow of \$203 million in the prior period. Pleasingly, trading cash flows excluding significant items and legacy projects were materially higher: an inflow of \$176 million in HY24 compared to an outflow of \$63 million in HY23.

The materials and distribution divisions reported strong trading cash flows before significant items of \$253 million, compared to \$206 million in the prior period. The improved cash flow – despite lower earnings and deteriorating customer liquidity – was a result of tight management of inventories and trade receivables. Creditor terms remained consistent with the prior period.

The Residential and Development division reported a material improvement in trading cash outflows of \$31 million, compared to \$229 million in the prior period. Working capital outflows of \$72 million during the period were driven by the settlement of c. \$110 million of land purchases (historic agreements brought on balance sheet), largely offset by receipts from unit sales during the period, with housing work-in-progress actively controlled until better market conditions are prevalent. The division made limited new land commitments in HY24, remaining well-positioned to support its future sales pipeline through a total of c. 4,500 sections under its control. For the c. 3,200 sections and two rural properties on balance sheet at the end of December 2023, the assessed market valuation was c. \$300 million higher than the book value.

The Construction division recorded an underlying trading cash outflow of \$18 million, with good cash generation by Brian Perry Civil[®], offset by a temporary increase in bitumen purchases in Higgins[®] (c. \$20 million impact) as its supply model transitions from local to offshore sourcing. Legacy cash flows were an outflow of \$295 million, almost entirely on the NZICC and Pūhoi to Warkworth projects as they track to full completion in calendar 2024.

Significant items cash outflows in HY24 (excluding legacy construction projects) were \$29 million, primarily related to the Iplex[®] Australia Pro-fit matters, Cyclone Gabrielle remediation costs, and Winstone Wallboards[®] Tauriko plant transition costs.

Net capital expenditure and investments for the Group were \$199 million in HY24. This included investment in key strategic and growth areas: Winstone Wallboards[®] plant (\$31 million); Laminex[®] Taupo wood panels plant (\$23 million); PlaceMakers[®] frame and truss plant (\$8 million); Steel Hunua site consolidation (\$10 million); and the Group's ERP system project (\$24 million).

Group cash flows in HY24 are also inclusive of \$21 million of income tax payments in New Zealand and a \$124 million payment for the FY23 final dividend. Funding costs paid were \$57 million, up from \$39 million in the prior period, driven by higher interest rates and drawn debt in the period.

Group Overview (cont.)

Balance Sheet, Returns and Funding

ROFE before significant items for the year to 31 December 2023 was 13.8%. Funds employed increased to \$5.1 billion compared to \$4.8 billion at 30 June 2023, resulting from: an unwind of onerous contract provisions on the legacy construction projects; and the Group's continued investment in attractive growth opportunities to deliver at least 15.0% ROFE when mature.

The Group's leverage ratio (net debt / EBITDA before significant items) at 31 December 2023 was 1.8 times, compared to 1.2 times at 30 June 2023, which principally reflects debt drawdowns associated with legacy cash outflows. Looking ahead, the Group expects to remain at the higher end of its target 1x-2x leverage range through FY24.

The Group's gearing at 31 December 2023 was 36.4% compared with 27.8% at 30 June 2023.

Total funding available to the Group at 31 December 2023 was \$2,873 million, of which \$709 million was undrawn and there was an additional \$215 million of cash on hand. This provided liquidity to the Group at 31 December 2023 of \$0.9 billion. In HY24, the Group executed a New Zealand dollar denominated loan facility with a three-bank syndicate of \$400 million, which replaces the \$300 million revolving credit facility which was due to mature in October 2024. The Group also announced in HY24 its first investment grade credit rating of Baa2 assigned by Moody's Investors Service.

The average maturity of the Group's debt at 31 December 2023 was 2.8 years, with the currency split being 15% Australian dollar; 84% New Zealand dollar; and 1% spread over various other currencies.

The Group currently has 50% of all borrowings with fixed interest rates with an average duration of 2.2 years. Inclusive of floating rate borrowings, the average interest rate on the debt (based on period-end borrowings) was 6.0%.

Dividend

Given the current market conditions, the expected legacy construction cash outflows and in line with the Company's dividend policy, the Board has resolved not to declare an interim dividend.

Building Products

Financial Summary

Six months ended 31 December	Restated ⁽¹⁾	
	2023 NZ\$M	2022 NZ\$M
Gross revenue	703	768
External revenue	570	619
Gross margin	33.1%	34.3%
EBIT before significant items ⁽²⁾	78	111
EBIT margin before significant items ⁽²⁾	11.1%	14.5%
Significant items ⁽³⁾	(6)	(5)
Funds	1,256	1,039
Trading cash flow	95	80
Capital expenditure	75	125

(1) The comparatives have been restated as a result of a change in segmental classification. Humes® Pipeline Systems which was previously under the Building Products division has been re-presented under the Concrete division. Further details of the change can be found in **note 4** of the consolidated interim financial statements.

(2) EBIT 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 consolidated interim financial statements for the period ended 31 December 2023.

(3) Details of Significant items can be found in **note 2.1** of the consolidated interim financial statements.

Light Building Products

- > Winstone Wallboards®
- > Laminex® New Zealand
- > Comfortech®
- > Iplex® New Zealand

Metals

- > Fletcher Steel®
- > Altus® JV

Wood Products

- > Waipapa

Six months ended 31 December	Restated ⁽¹⁾	
	2023 NZ\$M	2022 NZ\$M
EBIT before significant items ⁽²⁾		
Light Building Products	67	84
Metals	14	32
Wood Products	2	
Divisional costs	(5)	(5)
Total	78	111

The Building Products division reported gross revenue of \$703 million, 8% lower than the prior period. EBIT before significant items was \$78 million and EBIT margin was 11.1%, compared to the \$111 million and 14.5% reported in the prior period. Trading cash flow of \$95 million was \$15 million higher than the prior period.

The division's trading performance in HY24 reflected the weaker market environment compared to HY23. A revenue decline of 8% or \$65 million was driven by a market volume decline of 13% (weighted for the division's sector exposure), partly offset by price gains. Ongoing post-COVID destocking in the pipes and Steel networks contributed to this decline, while the division's new Waipapa Pine Wood Products business was also impacted by lower volumes and timber pricing. The expected higher volume from the H1 building code change is yet to substantially contribute to the trading volume of Comfortech®, although the new range has been gaining industry support. Positively, Winstone Wallboards® and Laminex® continued to gain market share, and Laminex® online sales grew to c. 50% of their total revenue.

Inflationary pressures persisted for the division in the areas of raw materials (especially gypsum and paper), electricity, partially offset by lower resin costs. Winstone Wallboards® incurred \$5 million increased depreciation in the period resulting from the commissioning of the new Tauriko plant. In Steel, falling prices resulted in an inventory devaluation impact of \$4 million in the period. The division managed to offset some of the market volume and inflationary pressures through pricing strategies and cost-cutting measures. These included reducing production shifts and warehouse space, and optimising freight services. Overall gross margin of 33.1% were 120 basis points lower than HY23, though were in line with the prior period when adjusted for the additional Winstone Wallboards® depreciation and Steel devaluation. Overhead costs across the division remained well controlled, being 1% lower than HY23 despite the addition of the Waipapa business.

EBIT before significant items of \$78 million was \$33 million below the prior period. The two key drivers of the decline were: c. \$35 million EBIT impact from reduced revenue in a softer market; c. \$9 million of cost from additional Winstone Wallboards® depreciation and Steel devaluation; partly offset by cost reductions.

Trading cash flow in HY24 was \$95 million, a \$15 million increase from the prior period. This was driven by both strong collections and the reduced activity, as well as the ongoing reduction of post-COVID excess stock in Iplex®.

Capital expenditure was \$75 million, comprising: completion of the Winstone Wallboards® plasterboard plant (\$31 million), the ongoing construction of the Laminex® Taupō wood panels plant (\$23 million) and Steel Hunua site consolidation (\$10 million).

Key highlights for the period were: the seamless transition from Auckland to Tauriko of our North Island plasterboard manufacturing plant and distribution centre; successful ERP go-live in Iplex® and investment in digital tools to improve customer service; and good progress on the integration of Waipapa Pine within the division.

Distribution

Divisional Overview

- > PlaceMakers®
- > Mico®
- > Tumu

Financial Summary	2023 NZ\$M	2022 NZ\$M
Six months ended 31 December		
Gross revenue	836	965
External revenue	817	948
Gross margin	26.8%	27.5%
EBIT	35	65
EBIT margin	4.2%	6.7%
Funds	308	299
Trading cash flow	42	98
Capital expenditure	10	43
Investments		60

The Distribution division reported gross revenue of \$836 million, which was 13% lower than the prior period. EBIT was \$35 million, compared to \$65 million in the prior period. EBIT margin was 4.2%, compared to 6.7% in the prior period. The division generated trading cash flow of \$42 million, compared to \$98 million in the prior period.

The division is primarily (c. 80%) exposed to the residential construction sector. Relative to the prior period, market activity was subdued across the country, albeit more robust in the Auckland region. In the Hawke's Bay region, where Tumu is located, cyclone-related insurance claims have taken longer to come through than anticipated, and the region is yet to see any significantly elevated post-cyclone residential construction activity. Overall, the division reported revenue 13% (or \$129 million) below HY23, which compared to a market volume decline of 17% (weighted for the division's sector exposure).

Inflationary pressures continued to be felt during HY24, particularly across employee and lease costs. The division also experienced competitive market pricing pressure particularly in the timber and frame and truss categories in PlaceMakers® and Tumu, as well as across Mico®'s key lines such as PVC pipe and fittings. These cost and pricing pressures were partly offset by the division's focus on optimising delivery fleet (including a reduction in the use of third-party freight), reducing variable costs in line with reduced sales activity, and lower discretionary spend. These actions enabled gross margin in HY24 of 26.8%, which was within 70 basis points of the prior period (HY23: 27.5%). Overhead costs were 5% (or \$10 million) lower than in HY23, notwithstanding inflationary pressure and a full period of ownership of Tumu.

EBIT before significant items of \$35 million was \$30 million below the prior period. This was primarily due to the impact of a weaker market on sales revenue (c. \$40 million EBIT impact) and a slight reduction in gross margin, partly offset by an improved overhead position.

Trading cash flow for the division was solid at \$42 million. Cash collections remained robust, with debtor days reducing to 38 days (HY23: 39 days), despite pressure on customer liquidity.

Capital expenditure for the period was \$10 million, which was focused on PlaceMakers®' new frame and truss manufacturing plant in Auckland, intended to drive increased operational efficiency and enable greater market share growth for the business.

During the half year, PlaceMakers® opened a new branch in Rolleston and completed a refurbishment of the New Lynn branch, while Mico® opened a new Rolleston branch. The division has also continued to mature its digital programme with an ongoing focus on providing customers with a seamless omnichannel experience.

Concrete

Financial Summary

Six months ended 31 December	Restated ⁽¹⁾	
	2023 NZ\$M	2022 NZ\$M
Gross revenue	567	554
External revenue	412	409
Gross margin	28.3%	29.7%
EBIT before significant items ⁽²⁾	70	81
EBIT margin before significant items ⁽²⁾	12.3%	14.6%
Significant items ⁽³⁾	2	1
Funds	810	772
Trading cash flow	87	55
Capital expenditure	34	22
Investments	7	

Divisional Review

- > Firth[®] Industries
- > Golden Bay[®]
- > Winstone Aggregates[®]
- > Humes[®]

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The Concrete division reported gross revenue of \$567 million, which was \$13 million or 2% higher than the prior period. EBIT before significant items was \$70 million, compared to \$81 million in the prior period. EBIT margin was 12.3%, compared to 14.6% in the prior period. Trading cash flow of \$87 million was a strong increase on the \$55 million in the prior period.

The division delivered robust top-line results. A revenue increase of 2% versus HY23 compared to a market volume decline of 13% (weighted for the division's sector exposure) and was partly offset by price and share gains. This performance has resulted from the division pushing harder into the more resilient commercial and infrastructure segments, while also maximising the internal usage of Golden Bay[®] cement supply. Winstone Aggregates[®] increased revenue by 23% compared to the prior period, which included higher transport revenues, while other business units delivered revenues broadly in line with HY23.

A key focus for the period has been aligning the division's fixed and variable cost base to the current market environment. In Firth[®], this has involved closure or repurposing of six regional concrete plants and reallocation of trucks to maximise utilisation. In Golden Bay[®] and Humes[®], the focus has been on production efficiency and delivering benefits from recent investments in debottlenecking and operational improvements. Winstone Aggregates[®] was impacted by temporary increases in operational maintenance costs at its largest quarry early in HY24.

The division's gross margin of 28.3% was 140 basis points lower than prior period (HY23: 29.7%), mainly reflecting the higher mix of revenue from the commercial and infrastructure segments. Pricing to recover input cost inflation (particularly in areas such as energy and domestic freight) was otherwise solid. Divisional overhead costs increased by c. 6% against the prior year, due to the addition of The Urban Quarry[®] business. Excluding this acquisition, overhead costs were 1% lower compared to HY23.

EBIT before significant items of \$70 million was \$11 million below the prior period. The key driver was a softer market (c. \$15 million EBIT impact), and lower gross margin levels from a higher mix of commercial and infrastructure revenues.

Trading cash flow for the division was strong at \$87 million, significantly up on prior period driven by disciplined working capital management. Stock management has been a key highlight, particularly in Humes[®] which has delivered a material reduction from the prior period. Divisional debtor days remained in line with the prior period.

Capital expenditure in the period of \$34 million was focused on asset renewals, fast-payback efficiency improvements, and aggregate resource.

A key highlight for the period was the successful integration of The Urban Quarry[®] business into Winstone Aggregates[®]. This provides a platform to fast-track recycling of construction and demolition waste, increasing the division's circular offering to customers. In the second half, a significant focus will be the development of Firth's[®] new flagship ready mix concrete plant in Auckland.

Australia

Financial Summary

Six months ended 31 December	2023 NZ\$M	2022 NZ\$M
Gross revenue	1,444	1,534
External revenue	1,414	1,500
Gross margin	33.1%	31.9%
EBIT before significant items ⁽¹⁾	78	82
EBIT margin before significant items ⁽¹⁾	5.4%	5.3%
Significant items ⁽²⁾	(125)	
Funds	1,331	1,448
Trading cash flow	11	(40)
Capital expenditure	27	16
Investments		6

(1) EBIT 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 consolidated interim financial statements for the period ended 31 December 2023.

(2) Details of Significant items can be found in **note 2.1** of the consolidated interim financial statements.

Building Products Australia:

- > Laminex® Australia
- > Iplex® Australia
- > Fletcher Insulation®

Distribution Australia:

- > Tradelink®
- > Oliveri® Solutions

Steel Australia:

- > Stramit®

EBIT before significant items ⁽¹⁾ Six months ended 31 December	2023 NZ\$M	2022 NZ\$M
Building Products Australia	72	64
Distribution Australia	1	10
Steel Australia	9	12
Divisional costs	(4)	(4)
Total	78	82

The Australia division reported gross revenue of \$1,444 million, 6% lower than the prior period. EBIT before significant items was \$78 million, compared with \$82 million in the prior period. EBIT margin increased to 5.4% compared to 5.3% in the prior period. Trading cash flow was an inflow of \$11 million compared to a \$40 million outflow in the prior period.

The Australia Division saw a c. 8% decline in overall market activity compared to the prior period. Residential finishing trades were the most robust sector, leading to solid top-line performances in Laminex® and Fletcher Insulation®. Iplex® was impacted by reduced levels of civil project activity, while Stramit® faced softer demand in the shed and distributor market.

Elevated input cost inflation remained a feature of the trading environment. While pressure eased on raw materials, costs remained elevated in property, utilities, and labour. Despite this, continued strong pricing governance and new products brought to market delivered a gross margin improvement of 120 basis points compared to the prior period. The division also pre-emptively restructured certain business lines in anticipation of lower trading volumes.

EBIT before significant items of \$78 million and EBIT margin of 5.4% were both broadly in line with the prior period. The building products businesses materially improved EBIT compared with HY23, while Stramit® reported a slight decline in the softening market. Tradelink®'s performance was disappointing, delivering lower EBIT from a reduction in market volumes but also market share loss. A \$122 million non-cash impairment and write-down of the business's carrying value was recorded as a result, classified as a Significant item.

Trading cash flow for the division was an \$11 million inflow compared with a \$40 million outflow in the prior period. The improvement reflected an unwind of working capital as market activity slowed towards the end of the half year. The heightened credit risk with increases in construction insolvencies is being well managed with builder payments closely monitored and no material impacts during the period.

Capital expenditure in the period was \$27 million, with ongoing investments in the areas of new product development, manufacturing automation technologies, and digital omni-channel programmes.

The division's ongoing focus on customers is producing positive outcomes, with an improvement in customer satisfaction to 43 from 20 in the prior period. This improvement is largely attributed to the division's success in achieving higher rates of DIFOT (Delivery in Full On Time) and introducing new products such as Laminex® Surround and silica-free engineered stone alternatives. Additionally, the division has seen substantial growth in digital sales and has gained market share in higher-margin segments, which include Stramit® sheds and doors, Laminex® decorative products, and the Oliveri® bathroom category.

Residential and Development

Financial Summary

Six months ended 31 December	2023 NZ\$M	2022 NZ\$M
Gross revenue	351	219
External revenue	340	214
EBIT ⁽¹⁾	41	49
EBIT margin ⁽¹⁾	11.7%	22.4%
Funds	985	914
Trading cash flow	(31)	(229)
Capital expenditure ⁽²⁾	12	9

(1) The EBIT result includes a \$1 million gain on revaluation of Vivid Living® investment property (2022: nil). There were no transfers of land from Fletcher Living® to Vivid Living® in the current period (2022: \$9 million).

(2) Capital expenditure includes investment property development.

Divisional Review

- > Fletcher Living®
- > Vivid Living®
- > Fletcher Apartments
- > Clever Core®

EBIT ⁽¹⁾ Six months ended 31 December	2023 NZ\$M	2022 NZ\$M
Fletcher Residential ⁽¹⁾	41	33
Industrial Development		16
Total	41	49

The Residential and Development division reported gross revenue of \$351 million, a 60% increase on the prior period. EBIT for the division of \$41 million was \$8 million lower than the \$49 million reported in the prior period. EBIT margin decreased to 11.7% from 22.4%. Trading cash flow was an outflow of \$31 million compared to an outflow of \$229 million in the prior period.

Following a challenging period from late 2021 to early-2023, New Zealand housing market conditions showed improvement through HY24. While elevated interest rates continued to impact some customers' ability to secure mortgage financing, overall activity trended up especially in the first-home buyer / lower price category. Pricing also began to stabilise in HY24 after 18 months of sharp contraction.

In Fletcher Residential, 419 units (including 47 apartments) were taken to profit compared to 189 units (including 6 apartments) in the prior period. Clever Core®, the division's panelisation business, delivered 90 units in the period (HY23: 59 units), and Vivid Living® opened its first retirement development at Red Beach, completing 11 settlements in the period.

Fletcher Residential EBIT of \$41 million was ahead of the prior period's \$33 million. The HY23 result included a revaluation gain of \$9 million from the transfer of land from Fletcher Living® to Vivid Living®. Normalised for this, Fletcher Residential EBIT in HY24 was \$16 million ahead of the prior period, and EBIT margin in HY24 of 11.4% was broadly in line (HY23: 12.8%).

In Industrial Development, there were no sales in the period, compared to three disposals in HY23 which delivered \$16 million EBIT. This Industrial Development gain was the key driver of higher EBIT margin in HY23.

Trading cash flow in HY24 was an outflow of \$31 million compared to an outflow of \$229 million in the prior period. An outflow in the first half of the year is normal as the business builds homes for second half settlement. Divisional funds employed at 31 December 2023 were \$985 million, compared to \$915 million at 30 June 2023. This increase was driven by the settlement of c. \$110 million of land purchases, including the first payment for The Hill at Ellerslie Racecourse, partly offset by a reduction in housing work-in-progress due to strong sales. Additionally, the division paused a number of apartment projects until better market conditions prevail.

At 31 December 2023, the division had a total of c. 4,500 sections under control. For the c. 3,200 sections and two rural properties on balance sheet at December 2023, the assessed market valuation updated during the half was approximately \$300 million higher than the book value, providing a degree of margin resilience in future periods.

Key highlights for the period were the improved Fletcher Residential sales run rate, averaging 19 units per week (HY23: 12 units per week) and with 180 contracts already executed to settle in second half of FY24. In Vivid Living®, following the welcoming of its first residents at Red Beach, the business has now commenced work on a second offering in Karaka, South Auckland.

Construction

Financial Summary	2023 NZ\$M	2022 NZ\$M
Six months ended 31 December		
Gross revenue ⁽¹⁾	699	650
External revenue	695	594
EBIT before significant items ^(1, 2)	(1)	9
EBIT margin before significant items ^(1, 2)	(0.1%)	1.4%
Significant items ⁽³⁾	(179)	(150)
Funds	216	164
Trading cash flow ⁽¹⁾	(313)	(28)
Capital expenditure	4	9

Divisional Review

- > Major Projects
- > Buildings
- > Brian Perry Civil®
- > South Pacific
- > Higgins®

(1) Prior to elimination of intra-Group margin in relation to Winstone Wallboards® Tauriko plant.

(2) EBIT 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 consolidated interim financial statements for the period ended 31 December 2023.

(3) Details of Significant items can be found in **note 2.1** of the consolidated interim financial statements.

Note: External revenue includes income from the Group's Vertical Buildings Business (December 2023: \$51 million; December 2022: \$52 million; June 2023: \$104 million), which the Group is in the process of exiting. The New Zealand International Convention Centre and Hobson Street Hotel (NZICC) represents the largest project to complete in this sector. EBIT before significant items, however, excludes any earnings from these projects.

The Construction division reported gross revenue of \$699 million, which was \$49 million or 8% higher than the prior period. Prior to elimination of intra-Group margin on the Winstone Wallboards® plant, EBIT before significant items was a loss of \$1 million, compared to a profit of \$9 million in the prior period. Trading cash flow was an outflow of \$313 million compared to a \$28 million outflow in the prior period. Excluding legacy projects, trading cash flow resulted in an outflow of \$18 million.

The increase in top-line performance compared to the prior period was driven by higher work volumes in both the Higgins® and Brian Perry Civil® businesses. Higgins® benefited as reconstruction works commenced following the destructive weather events in FY23, and Brian Perry Civil® from significant programmes of work across the water, airports and marine sectors. A key highlight for the period in Brian Perry Civil® was the successful commencement of work on the Auckland Airport Taxiway Mike project.

Gross margin in HY24 was 7.1%, compared to 8.9% in the prior period. Weaker gross margin was due to a combination of remedial costs on historical Higgins® projects, and slippage of margin recognition on some larger Brian Perry Civil® projects to second half of FY24. Divisional cost controls remained tight, with overheads at 7.6% of gross revenue (HY23: 7.8%).

Significant items for the period were \$179 million, which included the additional \$165 million provisions for increased costs and lower expected Contract Works Insurance (CWI) recoveries on the NZICC project, and \$15 million of expected remedial works costs for the Wellington International Airport Limited (WIAL), both projects are part of the legacy vertical building operations being wound down. This was partially offset from income recognised on recovery of Cyclone Gabrielle and North Island Floods insurance claims received in the period.

Trading cash flow for the division was an outflow of \$313 million. This was driven by outflows of \$295 million associated with legacy projects. Excluding legacy impacts, trading cash flow as an outflow of \$18 million, principally driven by increased bitumen inventory levels held by Higgins® arising from changes in the New Zealand bitumen supply chain, as well as one-off buildings and other asset reparation costs caused by Cyclone Gabrielle in the Hawke's Bay region last year.

The orderbook at 31 December 2023 was \$2.5 billion, in line with \$2.8 billion at 30 June 2023. It continues to constitute mainly lower risk, smaller self-perform work; national and local road maintenance contracts; and alliance infrastructure projects. The division's share of the Transport Rebuild East Coast (TREC) project was also recognised in the period, and is expected to support strong work volumes over the forward 24 months.

Consolidated Income Statement

For the six months ended 31 December 2023

	Note	Unaudited Six months Dec 2023 NZ\$M	Unaudited Six months Dec 2022 NZ\$M	Audited Year ended June 2023 NZ\$M
Revenue		4,248	4,284	8,469
Cost of goods sold		(3,024)	(2,975)	(5,838)
Gross margin		1,224	1,309	2,631
Selling, general and administration expenses		(966)	(975)	(1,883)
Share of profits of associates and joint ventures		5	16	34
Revaluation gain on investment property		1	10	16
Significant items	2.1	(308)	(154)	(301)
Earnings/(loss) before interest and taxation (EBIT)		(44)	206	497
Lease interest expense		(32)	(30)	(60)
Funding costs		(62)	(39)	(94)
Earnings/(loss) before taxation		(138)	137	343
Taxation benefit/(expense)	5	21	(34)	(89)
Earnings/(loss) after taxation		(117)	103	254
Earnings attributable to non-controlling interests		(3)	(11)	(19)
Net earnings/(loss) attributable to the shareholders		(120)	92	235
Net earnings per share (cents)				
Basic		(15.3)	11.7	30.0
Diluted		(15.3)	11.3	28.4
Weighted average number of shares outstanding (millions of shares)				
Basic		783	783	783
Diluted		783	861	848
Dividends declared per share (cents)			18.0	34.0

The accompanying notes form part of and are to be read in conjunction with these consolidated interim financial statements.

On behalf of the Board, 14 February 2024.



Bruce Hassall
Chair



Robert McDonald
Director

Consolidated Statement of Comprehensive Income

For the six months ended 31 December 2023

	Note	Unaudited Six months Dec 2023 NZ\$M	Unaudited Six months Dec 2022 NZ\$M	Audited Year ended June 2023 NZ\$M
Net earnings/(loss) attributable to shareholders		(120)	92	235
Net earnings attributable to non-controlling interests		3	11	19
Net earnings/(loss) after tax		(117)	103	254
<i>Items that may be reclassified subsequently to Consolidated Income Statement in the future:</i>				
Movement in cash flow hedge reserve		(17)	(4)	2
Movement in currency translation reserve		(17)	(53)	(23)
		(34)	(57)	(21)
Other comprehensive income		(34)	(57)	(21)
Total comprehensive income/(loss) for the period		(151)	46	233

The accompanying notes form part of and are to be read in conjunction with these consolidated interim financial statements.

Consolidated Statement of Movements in Equity

For the six months ended 31 December 2023

NZ\$M	Share capital	Retained earnings	Share-based payments reserve	Cash flow hedge reserve	Currency translation reserve	Pension reserve	Total	Non-controlling interests	Total equity
Total equity at 30 June 2022 (audited)	3,003	705	26	8	(55)	63	3,750	15	3,765
Total comprehensive income for the period		92		(4)	(53)		35	11	46
Movement in non-controlling interests								(8)	(8)
Dividends paid to shareholders of the parent		(172)					(172)		(172)
Movement in share-based payment reserve	1	5					6		6
Movement in treasury stock	(13)						(13)		(13)
Total equity at 31 December 2022 (unaudited)	2,991	630	26	4	(108)	63	3,606	18	3,624
Total comprehensive income for the period		143		6	30		179	8	187
Movement in non-controlling interests								1	1
Dividends paid to shareholders of the parent		(139)					(139)		(139)
Movement in share-based payment reserve	2		2				4		4
Movement in treasury stock									
Total equity at 30 June 2023 (audited)	2,993	634	28	10	(78)	63	3,650	27	3,677
Total comprehensive income/(loss) for the period		(120)		(17)	(17)		(154)	3	(151)
Movement in non-controlling interests								(7)	(7)
Dividends paid to shareholders of the parent		(124)					(124)		(124)
Movement in share-based payment reserve		4	2				6		6
Total equity at 31 December 2023 (unaudited)	2,993	394	30	(7)	(95)	63	3,378	23	3,401

The accompanying notes form part of and are to be read in conjunction with these consolidated interim financial statements.

Consolidated Balance Sheet

As at 31 December 2023

Assets	Note	Unaudited Dec 2023 NZ\$M	Unaudited Dec 2022 NZ\$M	Audited June 2023 NZ\$M
Current assets:				
Cash and cash equivalents		215	272	365
Current tax assets		11		6
Contract assets	3	178	110	141
Derivatives		7	6	18
Debtors		978	1,229	1,176
Inventories		1,772	1,695	1,624
Total current assets		3,161	3,312	3,330
Non-current assets:				
Property, plant and equipment		2,122	1,919	2,072
Investment property		71	43	58
Intangible assets		1,170	1,156	1,253
Right-of-use assets		1,322	1,344	1,324
Investments in associates and joint ventures		222	208	225
Inventories		467	447	456
Retirement plan assets		126	123	126
Derivatives		28	14	44
Deferred tax assets		236	226	193
Total non-current assets		5,764	5,480	5,751
Total assets		8,925	8,792	9,081
Liabilities				
Current liabilities:				
Creditors, accruals and other liabilities		1,166	1,335	1,416
Provisions		340	302	403
Lease liabilities		190	185	192
Current tax liabilities			6	
Derivatives		23	7	20
Contract liabilities	3	71	110	82
Borrowings	6	84	70	88
Total current liabilities		1,874	2,015	2,201
Non-current liabilities:				
Creditors, accruals and other liabilities		102	29	52
Provisions		39	30	31
Lease liabilities		1,401	1,451	1,404
Derivatives		8	5	1
Borrowings	6	2,100	1,638	1,715
Total non-current liabilities		3,650	3,153	3,203
Total liabilities		5,524	5,168	5,404
Equity				
Share capital		2,993	2,991	2,993
Reserves		385	615	657
Shareholders' funds		3,378	3,606	3,650
Non-controlling interests		23	18	27
Total equity		3,401	3,624	3,677
Total liabilities and equity		8,925	8,792	9,081

The accompanying notes form part of and are to be read in conjunction with these consolidated interim financial statements.

Consolidated Statement of Cash Flows

For the six months ended 31 December 2023

	Note	Unaudited Six months Dec 2023 NZ\$M	Unaudited Six months Dec 2022 NZ\$M	Audited Year ended June 2023 NZ\$M
Cash flow from operating activities				
Receipts from customers		4,406	4,344	8,496
Dividends received		5	1	4
Payments to suppliers, employees and other		(4,427)	(4,326)	(7,769)
Interest paid		(89)	(68)	(152)
Income tax paid		(21)	(154)	(191)
Net cash from operating activities	10	(126)	(203)	388
Cash flow from investing activities				
Sale of property, plant and equipment		3	5	6
Purchase of subsidiaries		(7)	(57)	(183)
Purchase of property, plant and equipment and intangible assets		(183)	(240)	(445)
Payments for investment property and investment property under development		(12)	(9)	(19)
Net cash from investing activities		(199)	(301)	(641)
Cash flow from financing activities				
Issue of capital notes			10	50
Repurchase of capital notes				(56)
Repurchase of shares - transferred to treasury stock			(13)	(13)
Drawdown of borrowings		700	692	774
Repayment of borrowings		(301)	(7)	(3)
Principal elements of lease payments		(100)	(97)	(196)
Contributions from non-controlling interests		11	23	37
Distribution to non-controlling interests		(7)	(8)	(13)
Dividends paid to shareholders of the parent		(124)	(172)	(311)
Net cash from financing activities		179	428	269
Net movement in cash held		(146)	(76)	16
Add: opening cash and cash equivalents		365	351	351
Effect of exchange rate changes on net cash		(4)	(3)	(2)
Closing cash and cash equivalents		215	272	365

The accompanying notes form part of and are to be read in conjunction with these consolidated interim financial statements.

Fletcher Building Financial Statements

Significant changes in the current reporting period

The financial position and performance of the Group were particularly affected by the following events and transactions during the reporting period:

- The Group announced additional loss provisions on the New Zealand International Convention Centre and Hobson Street Hotel (NZICC) project of \$165 million and a provision to remediate the Wellington International Airport Limited carpark of \$15 million. These provisions have been recognised as Significant items in the Consolidated Income Statement. Refer to **note 2.1**.
- The Group recognised a non-cash impairment and write-down of \$122 million in relation to the Tradelink® cash generating unit (CGU) which includes impairment and write-down of Tradelink®'s remaining goodwill and brand balances. Refer to **note 2.2**.
- On 3 October 2023, the Group announced that it has been assigned a credit rating from an accredited rating agency. Refer to **note 6**.
- On 18 December 2023, the Group executed a new loan facility with a three-bank syndicate expiring on 30 November 2026. Refer to **note 6**.

Notes to the Consolidated Financial Statements

Statement of accounting policies

1. GENERAL INFORMATION

The consolidated interim financial statements presented are those of Fletcher Building Limited (the Company) and its subsidiaries (the Group). The Group is primarily involved in the manufacturing and distribution of building materials and residential, commercial and infrastructure construction. Fletcher Building Limited is domiciled in New Zealand. The registered office of the Company is 810 Great South Road, Penrose, Auckland.

The Company is registered under the Companies Act 1993 and is a Financial Markets Conduct Act (FMCA) 2013 reporting entity in terms of the Financial Reporting Act 2013. The Group is a for-profit entity.

Basis of presentation

These consolidated interim financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand and the requirements of the Financial Markets Conduct Act 2013. Generally Accepted Accounting Practice is the New Zealand equivalent to International Financial Reporting Standards (NZ IFRS).

These financial statements are presented in New Zealand dollars (\$), which is the Group's presentation currency, and rounded to the nearest million unless otherwise stated.

The consolidated interim financial statements comply with NZ IAS 34 *Interim Financial Reporting* and do not include all the information and disclosures required in the annual consolidated financial statements, and should be read in conjunction with the Group's annual consolidated financial statements as at 30 June 2023. In complying with NZ IAS 34, these financial statements comply with International Accounting Standard 34 *Interim Financial Reporting*.

Accounting policies are disclosed within each of the applicable notes to the consolidated interim financial statements and are marked with this colour.

The estimates and judgements that are critical to the determination of the amounts reported in the consolidated interim financial statements have been disclosed with the relevant notes in the consolidated interim financial statements and are marked with this colour.

The following key exchange rates were applied in the preparation of the consolidated interim financial statements:

NZD/AUD	Unaudited Six months Dec 2023	Unaudited Six months Dec 2022	Audited Year ended June 2023
Average rates	0.9231	0.9069	0.9142
Closing rates	0.9264	0.9363	0.9173

Notes to the Consolidated Financial Statements (cont.)

2. KEY ESTIMATES, JUDGEMENTS AND OTHER FINANCIAL INFORMATION

2.1 SIGNIFICANT ITEMS

In reporting financial information, the Group presents non-GAAP performance measures, which are not defined or specified under the requirements of NZ IFRS.

The Group believes that these non-GAAP measures, which are not considered to be a substitute for or superior to NZ IFRS measures, provide stakeholders with additional useful information on the performance of the business. The non-GAAP measures are consistent with how the business performance is planned and reported to the Board and Audit and Risk Committee.

The Group makes certain significant item adjustments to the statutory profit measures in order to derive non-GAAP measures. The Group discloses certain non-operating items as significant items. The Group's policy is to recognise significant items for transactions or events outside of the Group's ongoing operations that have a significant impact on reported profit. This policy provides stakeholders with additional useful information as a means to assess the year-on-year trading performance of the Group. On this basis, significant items include, but are not limited to, the following:

- Gains and losses arising from mergers and acquisition (M&A) activity (i.e. business acquisitions and disposals) and associated costs.
- Restructuring and other associated costs arising from significant strategy changes that are not considered by the Group to be part of the normal operating costs of the business.
- Impacts of significant one off events that have a material effect on the Group's financial performance and asset valuation.
- Impairment charges and provisions that are considered to be significant in nature and/or value to the trading performance of the business.
- Net gains and losses on the disposal of properties and businesses where a commitment to close has been demonstrated.

As at 31 December 2023, significant items totalled \$308 million (December 2022: \$154 million), this amount captures both gains and losses from transactions or events outside of the Group's ongoing operations that have had significant impact on the Group's reported profit and loss in the period, including:

- \$180 million relates to construction provisions recognised in the period, of which \$165 million relates to increased costs and lower expected Contract Works Insurance (CWI) recoveries on the NZICC project, and \$15 million of costs for remedial works at Wellington International Airport Limited, as the Group winds down its operations in the vertical building sector. Refer to **note 3**.
- \$122 million relates to the non-cash impairment and write-down of Tradelink® assets which includes Tradelink®'s remaining goodwill and brand balances. Refer to **note 2.2**.
- \$6 million of costs to transition Winstone Wallboards® operations from Auckland to Tauriko (Bay of Plenty, New Zealand).
- \$3 million of legal fees incurred by Iplex® Australia in relation to Pro-fit pipes matter. Refer to **note 8**.
- \$3 million of gains were recognised by Concrete (\$1 million) and Construction (\$2 million) divisions following receipt of insurance claims, all relating to property damage losses and costs of direct remedial works following Cyclone Gabrielle and North Island Floods.
- \$1 million of gains were recognised following Fletcher Concrete and Infrastructure Limited (FCIL, a fully owned subsidiary of FBL) acquisition of the remaining 50% interest in Cromwell Certified Concrete Limited (CCCL) on 25 July 2023 for a consideration of \$6.5 million. The previously held equity interest is remeasured to its fair value at the acquisition date with the gain recognised in profit and loss (NZ IFRS 3 *Business Combinations*).

2.2 INTANGIBLE ASSET IMPAIRMENT TESTING

The Group tests indefinite life intangible assets, including goodwill and brands, for impairment on an annual basis. Each cash generating unit (CGU) to which goodwill is allocated is valued using a discounted cash flow model. This is representative of the higher of fair value less costs to dispose and value-in-use.

Management has used its past experience of sales growth, operating costs and margin, and external sources of information where appropriate, to determine cash flow projections for the future. These cash flow projections are principally based on the business units' forecast five-year plan, which are risk adjusted where appropriate. Cash flows beyond five years have been extrapolated using estimated terminal growth rates, which do not exceed the long-term average growth rate for the industries and countries in which the business units operate. Cash flows are discounted using a nominal rate specific to each business and jurisdiction.

The Group performs a detailed impairment assessment annually and considers indicators of impairment at each reporting date. At 31 December 2023, the Group performed a review of indicators of impairment for all CGUs with significant balances of indefinite life intangible assets. No indicators of impairment were identified for the carrying amounts of these CGUs' assets, with the exception of the Tradelink® CGU.

Notes to the Consolidated Financial Statements (cont.)

Tradelink®

In 2018, the Group and its Australia divisional management team initiated a comprehensive strategic review of the Tradelink® CGU (Australia business segment). This process involved identifying and implementing several key initiatives aimed at boosting earnings and increasing profit margins. Although these measures led to an improvement in business performance, profit margins continued to lag expectations.

During the first half of FY24, a full business review was completed, with strategic initiatives identified to strengthen Tradelink®'s market position. Despite this, trading performance in the first half has continued to lag expectations. Acknowledging the expected short-to-medium-term economic forecasts and market environment, and the time for strategic initiatives to reach full potential, management have recognised a \$122 million non-cash impairment and write-down of Tradelink®'s assets, based on lower earnings forecasts in line with the business's recent performance. The non-cash impairment and write-down includes the impairment of the remaining Goodwill (A\$57 million) and Brand (A\$48 million) assets. Consequently, the associated deferred tax liability on Brands (A\$15 million) recognised in Tradelink® was also released, as an adjustment to tax expense.

The recoverable value of the business CGU of A\$152 million as at 31 December 2023 was assessed using a value-in-use discounted cash flow method. This valuation is based on a five-year business plan, formulated with consideration of the company's historical performance. The long-term growth rate applied to the forecast's fifth-year cash flows is 2.5% (June 2023: 2.5%), and a post-tax discount rate of 8.1% (June 2023: 8.1%) has been used in the impairment model.

2.3 SUPPLEMENTARY DISCLOSURES: EARNINGS PER SHARE

The below disclosure has been included to provide additional useful information by removing the impact of significant items in the current and prior year, and the resulting impact on the earnings per share measure.

	Unaudited Six months Dec 2023 NZ\$M	Unaudited Six months Dec 2022 NZ\$M	Audited Year ended June 2023 NZ\$M
The effect of significant items on earnings per share is as follows:			
Net earnings/(loss) after taxation (as per Consolidated Income Statement)	(120)	92	235
Add back: significant items before taxation	308	154	301
Less: tax benefit on significant items	(71)	(43)	(84)
Net earnings before significant items	117	203	452
Net earnings per share before significant items (cents)	14.9	25.9	57.7
Net earnings per share - as reported per Consolidated Income Statement (cents)	(15.3)	11.7	30.0

Notes to the Consolidated Financial Statements (cont.)

3. CONSTRUCTION ACCOUNTING

The Group's Construction division is engaged with a wide variety of customers to construct and maintain building and infrastructure projects across New Zealand and the South Pacific. Services provided by the division include construction contract works, engineering and maintenance services. Each project has a different risk profile based on its individual contractual and delivery characteristics. The Group's policies for accounting for such projects are outlined below, including related estimate and judgements made by management that have the most significant effect on the carrying value of assets and liabilities of the Group as at 31 December 2023.

Estimates and judgements are made relating to a number of factors when accounting for construction contracts. On the income side, these include estimates and judgements made on variations to consideration which typically include variations due to changes in scope of work, recoveries of claim income or bonus elements from customers, and potential liquidated damages or penalties that may be levied by customers. On the cost side, these include estimates and judgements related to the assessment of future costs after considering; the programme of work throughout the contract, any changes in the scope of work, any maintenance and defect liabilities, expected inflation (for unlet sub-trades), and the recovery of any cost through insurance claims. For cost reimbursable contracts, there are also estimates required on the level of disallowable costs which requires an assessment of whether costs are recoverable under the terms of the contract and therefore should be recognised as income. Estimates of the final outcome of each contract may include cost contingencies to take account of specific risks within each contract that have been identified.

Construction projects are inherently more uncertain earlier in their lifetime, which leads to a number of significant estimates and judgements being made at these early stages. Construction divisional management perform regular reviews of their project positions including reassessment of cost to complete estimates, including any cost contingencies and estimated recoverability of any variations at each reporting date. Significant estimates and judgements are reviewed on a regular basis throughout the contract life and are adjusted where appropriate. However, the nature of the risks on contracts are such that they often cannot be resolved until the project has been completed.

The significant judgements inherent in accounting for the Group's most material construction projects are:

- The extent to which a project progresses in line with the complex project programme and timetable previously formed and the resulting impact of any programme delays or gains on project costs, especially project overheads (preliminary and general costs) and any liquidated or other damages or penalties;
- Sub-contractor costs, in particular costs that are yet to be agreed in scope or price (including inflationary pressures) or cost increase that may arise due to programme prolongation;
- Recovery of any insurance claims;
- The outcome of ongoing commercial negotiations, including elements of variable consideration and changes in project scope with customers; and
- Future weather and ground conditions.

The Group's Construction division has a diverse portfolio of long term construction contracts. The nature and complexity of these contracts means the outcome can be subject to a significant level of estimation uncertainty, particularly in relation to the likelihood and quantum of any variation claims receivable, as well as the quantification and assessment of any other claims/counterclaims that may exist. Actual outcomes could be different from estimated amounts which may impact projection positions recognised.

Construction accounting policies

Revenue recognition

The Group derives revenue from the construction of building and infrastructure projects across New Zealand and the South Pacific. Contracts entered into may be for the construction of one or several separate inter-linked pieces of large infrastructure. While it is uncommon, contracts can be entered into for the delivery of several projects. Where this occurs, management determine whether a single or multiple performance obligations exist, and allocate the total contract price across each performance obligation based on the relative stand-alone selling prices. The nature of construction projects ordinarily lead to variations in the project size and scope over time, it is also normal practice for contracts to include bonus and penalty elements based on timely construction or other performance criteria, recognised as variable consideration.

Generally, contracts identify various inter-linked activities required in the construction process and the performance obligation is fulfilled over time and as such revenue is recognised over time. Revenue is invoiced based on the measured output of each process based on appraisals that are agreed with the customer on a regular basis, with the Group's right to payment occurring on a performance to date basis also.

Revenue on construction contracts (including sub-contracts) are determined using the percentage of completion method and represent the value of work carried out during the period, including amounts not invoiced. Costs are recognised as incurred and revenue is recognised on the basis of the proportion of total costs at the reporting date to the estimated total costs of the contract. Margin on a contract is not recognised until the outcome of the contract can be reliably estimated. Management use their professional judgement to assess both the timing of physical completion of the project and the risks associated with forecast financial result of the contract as part of this determination.

Maintenance contract revenue

Services revenue is primarily generated from maintenance services supplied to roading assets owned by local or central Government in New Zealand and the South Pacific. This revenue also arises in respect of infrastructure assets previously constructed by the Group where maintenance was included in the contract. The service contracts are typically determined to have one single performance obligation which is significantly integrated and is fulfilled over time.

Variable consideration

Revenue in relation to variations, such as a change in the scope of the contract, is only included in the contract price when it is approved by the parties to the contract, the variation is enforceable, or in certain circumstances when it is highly probable that a significant reversal of revenue recognised will not occur and is approved by the Board of Directors.

Notes to the Consolidated Financial Statements (cont.)

Contract assets, contract liabilities and provisions for onerous contracts

Contract assets/liabilities are usually stated at cost plus profit recognised to date, less progress billings. Costs include all expenditure directly related to specific projects and an allocation of fixed and variable overheads incurred in the Group's contract activities based on normal operating capacity.

Onerous contract are defined in NZ IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; where the unavoidable costs (i.e., the costs that the division cannot avoid because it has to fulfil the contract) of meeting the obligations under a contract exceed the economic benefits expected to be received under it. When a contract is identified as onerous ('loss-making'), a provision is made for estimated future losses on the entire contract.

A summary of the major construction projects and their approximate stage of completion is disclosed to demonstrate the uncertainty that remains on these projects.

Status of construction projects (> \$200 million original contract value) as at 31 December 2023:

	Business unit	Forecast completion*	Percentage of completion (% cost)
New Zealand International Convention Centre and Hobson Street Hotel (NZICC) - Fixed price contract and fire reinstatement	Buildings	2024	83%
Pūhoi to Warkworth - Fixed price contract (Public Private Partnership)	Infrastructure	2024	97%

*Calendar year

Revenue backlog

Revenue backlog, as disclosed below, refers to the level of construction work the Group is contracted to but is not yet complete as at period end. This represents the performance obligations that are yet to be completed for the construction contracts active as at 31 December 2023. The long-term nature of the contracts held by the Buildings, Infrastructure, Brian Perry Civil® and Higgins® businesses will see these performance obligations completed over a period generally between one to five years, although some may extend longer.

Revenue Backlog by Business Units as at 31 December 2023:

	Current Revenue Backlog NZ\$M	Top 5 projects as a % of Revenue backlog NZ\$M
Buildings	196	100%
Infrastructure	322	98%
Brian Perry Civil®	520	72%
Higgins®	1,430	77%
South Pacific	57	96%
	2,525	N/A

Contract assets

The gross amount of construction and maintenance work in progress consists of costs attributable to work performed and emerging profit after providing for any foreseeable losses. In applying the accounting policies on providing for these losses, accounting judgement is required.

Construction contracts with cost and margin in advance of billings are presented as part of contract assets.

Contract liabilities

Construction contracts where the total progress billings issued to clients (together with foreseeable losses if applicable) on a project exceed the costs incurred to date plus recognised profit on the contract are recognised as a liability.

	Unaudited Six months Dec 2023 NZ\$M	Unaudited Six months Dec 2022 NZ\$M	Audited Year ended Dec 2023 NZ\$M
Construction contracts with cost and margin in advance of billings	178	110	141
Contract assets	178	110	141
Construction contracts with billings in advance of cost and margin	71	110	82
Contract liabilities	71	110	82

Notes to the Consolidated Financial Statements (cont.)

Construction projects update

As announced on 5 February 2024, the Company's latest assessment of forecast costs and revenue for the New Zealand International Convention Centre and Hobson Street Hotel (NZICC) and expected cost of the remediation for the Wellington International Airport Limited carpark (WIAL) projects, resulted in additional provisions of \$165 million on NZICC and \$15 million on WIAL carpark being recognised in the interim financial statements as at 31 December 2023, both classified as Significant items.

The NZICC project remains on schedule for completion by late calendar year 2024. All carparks are now complete, the Hobson Street Hotel is scheduled to be handed over to SkyCity in February 2024, and steel remediation throughout the International Convention Centre is 98% complete. Despite this progress, actual and expected costs to complete the project have increased, principally in the areas of steel remediation, internal fit-out, and installation of operating systems. The increased costs are primarily due to higher levels of subcontractor resource required to deliver the final stage of the project. In addition, a portion of the Company's claims against the project Contract Works Insurance (CWI) may not be recoverable.

The assessment of the net cost to complete the project continues to rely on the application of estimates and judgements (e.g. programme to complete, remediation costs, the expected receipt of insurance recoveries and quantification of any claims and costs that are outside of insurance cover) and, as such, may be subject to change as the project progresses. Certain costs may fall outside the scope of the Contract Works policies, with the possibility they may be unrecoverable by the Group. The costs that are known or considered probable to be unrecoverable as at balance date have been included in the assessment of the onerous contract provision.

As part of the estimate of final margin loss on the project, it is forecasted that FCC will secure revenues of circa \$110 million in total across remaining CWI claims and 'BAU' client revenues (i.e. for work that was still to complete at the time of fire). Risks associated with proceeds under the Contract Works policy include insurers disputing FCC's claims, as while coverage has been confirmed, the extent of damage and recoverable costs have not all been agreed.

It is possible that the final provision could be below or above the levels currently allowed for, either through changes in costs to complete or the final level of insurance recoveries. As the project approaches completion, there is also risk of dispute over delay and cost with SkyCity. No claims have been received to date and project forecast and expected final margin does not allow for any.

The Group continues to pursue recoveries under the NZICC Third Party Liability (TPL) insurance policy of more than \$100 million. While the Company considers it has good grounds to recover material amounts under the TPL policy, it has determined that these proceeds are not yet "virtually certain" in accordance with NZ IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* to be recognised. As such, no amount has been recognised to be recovered under the TPL policy in the project position. The Company will continue to pursue its rights to recovery under the TPL policy, though this is not expected to be settled until calendar year 2025.

On the WIAL carpark project, Fletcher Construction Company Limited (FCC) completed a multi-level carpark for Wellington International Airport Limited (WIAL) in October 2018. The client has alleged there are a number of defects to the carpark and the adjacent storm water drainage. It is claiming the cost of remediation and other related losses in the order of \$40 million.

Based on its latest assessment of the estimated remedial costs and expected recoveries, FCC has recognised a provision of \$15 million in the interim financial statements as at 31 December 2023, classified as a Significant item.

FCC continues to work with WIAL to agree a remediation solution to quality issues identified and to settle claims. These matters may take some time to be resolved. It is possible that the final provision could be below or above the levels currently allowed for, and would ultimately depend on the solution agreed and associated costs, and final claim settlements.

On Pūhoi to Warkworth, where FCC has a 50% share of the Construction JV, the Group has reassessed the facts and circumstances known to it relating to: the estimated net cost to complete the programme of works; the merits of Construction JV's claims and likelihood of receipt of further relief under the Project Agreement and project insurance policies. Based on this assessment, the Group has concluded that no additional provision is required to be recognised as at 31 December 2023. There remains a risk that, ultimately, the full amount of the Construction JV's claims will not be recovered.

Notes to the Consolidated Financial Statements (cont.)

4. SEGMENTAL INFORMATION

Segmental information is presented in respect of the Group's industry and geographical segments. The use of industry segments as the primary format is based on the Group's management and internal reporting structure, which recognises groups of assets and operations with similar risks and returns. Inter-segment pricing is determined on an arm's length basis.

Description of industry segments

Building Products	The Building Products division is a manufacturer, distributor, and marketer of building products used in the residential, industrial and commercial markets in New Zealand.
Distribution	The Distribution division consists of building and plumbing product distribution businesses in New Zealand.
Concrete	The Concrete division includes the Group's interests in the concrete value chain, including extraction of aggregates, and the production of cement, concrete and concrete products. The division operates in New Zealand.
Australia	The Australia division manufactures and distributes building materials for a broad range of industries across Australia.
Residential and Development	The Residential and Development division operates both in New Zealand and Australia. In New Zealand, the division's operations include building and sale of residential homes and apartments, development and sale of commercial and residential land, and management of retirement village assets. In Australia, the division's operations include development and sale of commercial and residential land. Development activity includes sale of land property which are surplus to the Group's operating requirements.
Construction	The Construction division is a supplier of building and maintenance services for infrastructure projects across New Zealand and the South Pacific. The division is exiting the vertical building sector, with NZICC being the last project for the Group.

Industry segments	Unaudited Six months Dec 2023 NZ\$M	Unaudited and restated ⁽¹⁾ Six months Dec 2022 NZ\$M	Audited Year ended June 2023 NZ\$M
Gross Revenue			
Building Products	703	768	1,443
Distribution	836	965	1,824
Concrete	567	554	1,085
Australia	1,444	1,534	3,016
Materials and distribution	3,550	3,821	7,368
Residential and Development	351	219	607
Construction	699	650	1,319
Corporate and other	6	5	10
Group	4,606	4,695	9,304
Less: intercompany revenue	(358)	(411)	(835)
External revenue	4,248	4,284	8,469
External Revenue			
Building Products	570	619	1,154
Distribution	817	948	1,792
Concrete	412	409	800
Australia	1,414	1,500	2,953
Materials and distribution	3,213	3,476	6,699
Residential and Development	340	214	594
Construction	695	594	1,176
Group	4,248	4,284	8,469

Note: External revenue includes income from the Group's Vertical Buildings Business (December 2023: \$51 million; December 2022: \$52 million; June 2023: \$104 million), which the Group is in the process of exiting. The New Zealand International Convention Centre and Hobson Street Hotel (NZICC) represents the largest project to complete in this sector. EBIT before significant items, however, excludes any earnings from these projects.

Notes to the Consolidated Financial Statements (cont.)

EBIT before significant items	Unaudited Six months Dec 2023 NZ\$M	Unaudited and restated⁽¹⁾ Six months Dec 2022 NZ\$M	Audited Year ended June 2023 NZ\$M
Building Products	78	111	215
Distribution	35	65	141
Concrete	70	81	156
Australia	78	82	180
Materials and distribution	261	339	692
Residential and Development	41	49	147
Construction	(1)	5	26
Corporate and other	(37)	(33)	(67)
Group	264	360	798

(1) The comparatives have been restated as a result of a change in segmental reclassification. Humes® Pipeline Systems which was previously under the Building Products division has been re-presented under the Concrete division. This results in an increase to the Concrete division and decrease in Building Products division of the comparative Gross Revenue (December 2022: \$67 million), External Revenue (December 2022: \$65 million), EBIT before significant items (December 2022: \$7 million), Funds base (December 2022: \$141 million), Depreciation, depletion and amortisation expense (December 2022: \$3 million) and Capital expenditure (December 2022: \$1 million) recognised.

Funds*

Building Products	1,256	1,039	1,210
Distribution	308	299	312
Concrete	810	772	789
Australia	1,331	1,448	1,368
Materials and distribution	3,705	3,558	3,679
Residential and Development	985	914	915
Construction	216	164	85
Corporate and other	160	115	158
Group funds employed	5,066	4,751	4,837
Net debt	(1,969)	(1,436)	(1,438)
Deferred tax (excl. deferred tax liability on brands)	304	309	278
Group total equity	3,401	3,624	3,677

* Funds represent the external assets and liabilities of the Group and are used for internal reporting purposes.

Depreciation, depletion and amortisation expense

Building Products	32	24	48
Distribution	27	27	53
Concrete	37	36	70
Australia	65	66	132
Materials and distribution	161	153	303
Residential and Development	2	1	3
Construction	20	20	39
Corporate and other	8	6	13
Group	191	180	358

Notes to the Consolidated Financial Statements (cont.)

Capital expenditure*	Unaudited Six months Dec 2023 NZ\$M	Unaudited and restated⁽¹⁾ Six months Dec 2022 NZ\$M	Audited Year ended June 2023 NZ\$M
Building Products	75	125	191
Distribution	10	43	62
Concrete	34	22	65
Australia	27	16	59
Materials and distribution	146	206	377
Residential and Development	12	9	23
Construction	4	9	19
Corporate and other	26	23	42
Group	188	247	461

+ Capital expenditure represents additions to the balance sheet of property, plant and equipment and intangible assets, excluding the impacts of the investments/acquisitions of companies or businesses.

(1) The comparatives have been restated as a result of a change in segmental reclassification. Humes® Pipeline Systems which was previously under the Building Products division has been re-presented under the Concrete division. This results in an increase to the Concrete division and decrease in Building Products division of the comparative Gross Revenue (December 2022: \$67 million), External Revenue (December 2022: \$65 million), EBIT before significant items (December 2022: \$7 million), Funds base (December 2022: \$141 million), Depreciation, depletion and amortisation expense (December 2022: \$3 million) and Capital expenditure (December 2022: \$1 million) recognised.

Geographic segments

External revenue	Unaudited Six months Dec 2023 NZ\$M	Unaudited Six months Dec 2022 NZ\$M	Audited Year ended June 2023 NZ\$M
New Zealand	2,776	2,705	5,353
Australia	1,414	1,507	2,959
Other jurisdictions	58	72	157
Group	4,248	4,284	8,469

EBIT before significant items

New Zealand	188	272	612
Australia	75	82	177
Other jurisdictions	1	6	9
Group	264	360	798

Funds*

New Zealand	3,654	3,196	3,403
Australia	1,344	1,497	1,381
Other jurisdictions	68	58	53
Group	5,066	4,751	4,837

Non-current assets*

New Zealand	3,898	3,499	3,762
Australia	1,428	1,572	1,574
Other jurisdictions	48	46	52
Group	5,374	5,117	5,388

* Funds represent the external assets and liabilities of the Group and are used for internal reporting purposes.

+ Non-current assets exclude deferred tax assets, retirement plan surplus and financial instruments.

Notes to the Consolidated Financial Statements (cont.)

5. TAXATION

The provision for current tax is the estimated amount due for payment during the next 12 months by the Group. The provision for deferred tax has been calculated using the balance sheet liability method.

Deferred tax is recognised on tax losses, tax credits and on the temporary difference between the carrying amount of assets and liabilities and their taxable value where recovery is considered probable. Deferred tax is not recognised on the following temporary differences:

- The initial recognition of goodwill; and
- The initial recognition of asset and liabilities for a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting nor taxable profit or loss.

There are no significant deferred tax liabilities in respect of the undistributed profits of subsidiaries and associates.

	Unaudited Six months Dec 2023 NZ\$M	Unaudited Six months Dec 2022 NZ\$M	Audited Year ended June 2023 NZ\$M
Earnings/(loss) before taxation	(138)	137	343
Taxation at 28 cents per dollar	(39)	38	96
Adjusted for:			
Difference in tax rates	(2)	1	2
Non-assessable income	(2)	(9)	(14)
Non-deductible expenses	21	2	4
Tax gains for which no deferred tax asset was recognised		(1)	
Utilisation of previous unrecognised tax losses			
Tax in respect of prior years	1	3	1
Tax expense/(benefit) on earnings	(21)	34	89
Tax expense on earnings before significant items	50	77	173
Tax benefit on significant items	(71)	(43)	(84)
	(21)	34	89
Total current taxation expense	16	31	130
Total deferred taxation expense/(benefit)	(37)	3	(41)
	(21)	34	89

The net deferred tax asset balance of \$236 million at 31 December 2023 largely comprises Construction provisions and tax losses incurred in the current and prior periods. It is expected there will be sufficient future earnings in New Zealand and Australia to utilise the deferred tax asset in each of these jurisdictions.

6. BORROWINGS

	Unaudited Six months Dec 2023 NZ\$M	Unaudited Six months Dec 2022 NZ\$M	Audited Year ended June 2023 NZ\$M
Private placements	476	461	484
Bank loans	1,344	860	946
Capital notes	343	359	343
Other loans	21	28	30
Carrying value of borrowings (as per Consolidated Balance Sheet)	2,184	1,708	1,803
Less: value of derivatives used to manage changes in hedged risks on debt instruments	(20)	(5)	(26)
Economic debt	2,164	1,703	1,777
Less: Cash and cash equivalents	(215)	(272)	(365)
Net debt	1,949	1,431	1,412

Notes to the Consolidated Financial Statements (cont.)

	Unaudited Six months Dec 2023 NZ\$M	Unaudited Six months Dec 2022 NZ\$M	Audited Year ended June 2023 NZ\$M
Carrying value of borrowings included within the Consolidated Balance Sheet as follows:			
Current borrowings	84	70	88
Non-current borrowings	2,100	1,638	1,715
Carrying value of borrowings (as per Consolidated Balance Sheet)	2,184	1,708	1,803

On 3 October 2023, the Group announced that it has been assigned an investment grade credit rating from an accredited rating agency, Moody's Investors Service, of Baa2 with a stable outlook.

On 18 December 2023, the Group executed a NZD400 million loan facility with a three-bank syndicate expiring on 30 November 2026. The three banks are all New Zealand registered. The facility comprises a NZD310 million revolving credit tranche and a NZD90 million term loan tranche. As at 31 December 2023 the facility was fully drawn. This facility replaces and extends a NZD300 million bi-lateral bank revolving credit facility with expiry date 31 October 2024, which was repaid in full and cancelled on 18 December 2023.

7. FAIR VALUE MEASUREMENT

All of the Group's derivatives are in designated hedge relationships and are measured and recognised at fair value.

All derivatives are level 2 valuations based on accepted valuation methodologies. Forward exchange fair value is calculated using quoted forward exchange rates and discounted using yield curves derived from quoted interest rates matching maturity of the contract. The fair value of commodity price swaps is measured using a derived forward curve and discounted using yield curves derived from quoted interest rates matching the maturity of the contract.

Financial instruments are measured at fair value using the following fair value measurement hierarchy:

- Level 1 Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 Inputs that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) other than quoted prices included within level 1.
- Level 3 Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The interest rates across all currencies used to discount future principal and interest cash flows are between 2.1% and 8.3% (December 2022: 2.3% and 6.8%; June 2023: 2.7% and 7.5%) including margins, for both accounting and disclosure purposes.

8. CONTINGENT LIABILITIES

Contingent liabilities are possible legal or constructive obligations arising from past events and whose existence will be confirmed only by occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. A contingent liability may also be a present obligation arising from past events but is not recognised on the basis that an outflow of economic resources to settle the obligation is not viewed as probable, or the amount of the obligation cannot be reliably measured. When the Group has a present obligation, an outflow of economic resources is assessed as probable and the Group can reliably measure the obligation, a provision is recognised.

The Group, in the normal course of business, may be subject to legal claims and other exposures in respect of which no provision has been made. Obligations assessed as having probable future economic outflows capable of reliable measurement are provided for at reporting date and matters assessed as having possible future economic outflows capable of reliable measurement are included in the total amount of contingent liabilities below.

Individually significant matters, including narrative on potential future exposures incapable of reliable measurement, are disclosed below, to the extent that disclosure does not prejudice the Group.

Guarantees

In certain circumstances, the Group guarantees the performance of particular business units in respect of their obligations. This includes bonding and bank guarantee facilities used primarily by the construction business as well as performance guarantees for certain of the Group's subsidiaries.

Notes to the Consolidated Financial Statements (cont.)

Product claims

As noted in prior disclosures, including the 2023 Annual Financial Results and NZX announcements on 17 April 2023 and 13 October 2023, issues have been raised in respect of the hot and cold water polybutylene pipe product Iplex[®] Australia previously manufactured (under the name "Pro-fit").

The issues relate to water leaks in homes, primarily built by group home builders in Western Australia, which have required repair or replacement of the Pro-fit pipes and, in some cases, repair to damage to the affected homes.

Iplex[®] Australia started manufacturing Pro-fit with Typlex resin from mid-2017 and those products represented the bulk of sales after that time. Iplex[®] Australia ceased the sale of Pro-fit in mid-2022. The Pro-fit product was sold into other states of Australia but not New Zealand.

Iplex[®] Australia is dependent on builders for information about the failures. Reports to Iplex[®] Australia are that, to date, about 2200 of the houses constructed in Western Australia and 37 of the houses constructed across the rest of Australia using Pro-fit with Typlex resin have experienced leaks. In the Company's October release, these numbers were 1908 and 28 respectively. Iplex[®] Australia now estimate that about 15,000 homes were built with Pro-fit with Typlex resin in Western Australia and another 15,000 in other states.

The Western Australia building regulator investigated the matter and, as earlier advised to the market, informed Iplex[®] Australia in August 2023 that "concerns were identified" regarding the manufacturing process used for Pro-fit by Iplex[®] Australia. That regulator also said it had ruled out plumbing installation practices as being the cause of the leaks.

WA Consumer Protection is investigating whether there is sufficient evidence to recommend that the WA Minister compulsorily recall Pro-fit which was manufactured using the Typlex resin. Iplex[®] Australia has been responding to requests for information in respect of that inquiry, which as at the time of preparation of these Statements, is on-going.

As previously advised, third party plumbers and builders in Western Australia have asserted that the cause of the Pro-fit plumbing failures is a manufacturing defect.

Iplex[®] Australia has undertaken or commissioned a substantial battery of tests to identify the cause of the plumbing failures. None has identified a manufacturing defect. The information available to Iplex[®] Australia and the advice it has received from experts after completing all the tests they require to opine on causation, clearly points to plumbing installation failures as the cause of the Pro-fit leaks.

Despite that conclusion and that Pro-fit pipes conform to Australian Standards, Iplex[®] Australia is conducting other tests with an international laboratory to try to emulate the conditions and poor installation practices seen in Western Australian homes and so isolate the same mode of failures and the same rate of failures as between resin types. To date, it has not been able to do so. The results of these tests, which will take time to be obtained, may help design an appropriate solution for the industry and the homeowners.

Iplex[®] Australia continues to work on the design of an appropriate industry path forward to resolve these issues in a timely and efficient way. However, this may be affected by the WA Government's position on a recall. Under the relevant law, a recall is not dependant on whether the Pro-fit product is defective but, instead, whether the WA Minister appropriately determines that it will or may injure a person and whether the suppliers are doing enough to prevent that. Iplex[®] Australia believes a recall is not a supportable remedy in the circumstances and, in any event, would be manifestly inappropriate.

As at the time of preparation of these Statements, Iplex[®] Australia is not aware of what the WA Consumer Protection's recommendation will be, when it will be made or how the WA Minister will respond to any such recommendation.

If there is a compulsory recall, the path forward and the implications for Iplex[®] Australia (and the Group) will be determined by the terms of that recall, including geographic scope, timing and cost. A recall would also not preclude litigation or exposure to other legal risks.

If there is no compulsory recall, the path forward will be informed by the cause(s) identified, the design and nature of a response plan for homeowners, whether those matters are agreed or contested, whether builders participate, whether regulator(s) and homeowners accept any proposed response plan and the availability of resources in the market to undertake work. The range of outcomes of that work plan may include full or partial product replacement in the homes where Pro-fit was installed, including in homes that have not and may not experience any leaks.

Legal claims against Iplex[®] Australia may arise, including via consumer class actions. No legal proceeding has been commenced against Iplex[®] Australia. If that changes, final judgment may not be reached for some time.

After the balance date, the WA Minister wrote to Iplex[®] Australia to encourage it to review the quantum of its A\$15m Interim Investigation fund allocated to support Perth's building industry and consider increasing it to permanently address the issues with the Pro-fit failures. Iplex[®] Australia engaged with the WA Minister in response and to further discuss how an industry solution may evolve.

Iplex[®] Australia's exposure to future costs, if any, will depend on the final determination of a number of matters, including:

- whether a recall order is issued and, if so, the geographic scope and nature of its terms;
- the determination as to cause(s) of the leaks and the allocation of responsibility between Iplex[®] Australia and other parties;
- whether Iplex[®] Australia is found to have liability on other grounds, such as under consumer protection laws;
- whether an industry solution to resolve the plumbing failures is implemented, which industry players participate, and how costs are borne between the parties;
- the reason for, and the type and scale of, remediation required, including the cost of undertaking it;
- other losses suffered by third parties as a result of the failures;
- if and how any relevant insurance policies respond (although it is currently not expected that there will be a significant contribution from the Group's insurers in respect of this matter); and
- the time frames over which remediation/payments may be required.

At balance date, given current facts and circumstances, Iplex[®] Australia has concluded it does not have a present obligation to any party beyond the Investigation Fund it has put in place (refer to note 9). On that basis, no provision for any settlement relating to the matter is made in these financial statements.

Ultimately, if Iplex[®] Australia is ordered to compulsorily recall the product or it is found or agrees to bear full or part responsibility for this issue, the cost to it in performing the order or rectifying homes with Pro-fit installed, as well as to meet any damages claims, fines and other costs, could have a significantly material impact on the Group's financial position. Disclosure of any possible impact would be materially prejudicial to the Group's commercial interests.

Notes to the Consolidated Financial Statements (cont.)

Class action proceedings

On 13 March 2023, the Group announced that class action proceedings had been filed against it in the Supreme Court of Victoria making allegations that between 17 August 2016 and 23 October 2017 the Group misrepresented the performance and financial position of its Building + Interiors (B+) business and failed to disclose information as to its true financial position. The claim is said to be brought on behalf of shareholders who acquired an interest in fully paid ordinary shares in the Group on the Australian Securities Exchange or NZX Main Board between those dates.

The Group has filed its Defence, denying all claims. The next step is for the Court to issue directions as to how the matter will be conducted. A hearing date for the substantive matter is not expected for some time.

9. PROVISIONS

Iplex[®] Australia provision for Investigation Fund

As previously advised, in the prior year Iplex[®] Australia had made a provision of A\$15 million for certain costs associated with this matter, which was classified as a Significant item. That provision is not an indication of Iplex[®] Australia's view as to the costs it will or may incur in relation to this matter, but relates to costs expected to be incurred in investigating this matter, contributing to the cost of repairs and replacement work by Western Australian builders who choose to do so in the interim (in return for the provision of data and access to homes which have had plumbing failures) and fund the work to identify a solution for the industry, as described in the Company's 17 April 2023 NZX announcement. As at 31 December 2023, approximately A\$6.4m of the Fund had been spent.

Fletcher Insulation[®] provision for product claims

Fletcher Insulation[®] Australia is the subject of a claims relating to installed glass wool insulation containing an imported foil. Fletcher Insulation[®] Australia is investigating the complaints to ascertain the cause and extent of the issue. Fletcher Building's New Zealand insulation business, Comfortech[®], did not use the same imported foil. The Group has considered the exposure Fletcher Insulation[®] Australia may have for the existing and future claims, with a provision recognised based on the facts and circumstances known at balance date. Fletcher Insulation[®] Australia is also assessing potential recoveries from its supplier of the product. There remains a risk that the Group's full exposure will be greater than the amount currently allowed.

10. RECONCILIATION OF NET EARNINGS TO NET CASH FROM OPERATING ACTIVITIES

	Unaudited Six months Dec 2023 NZ\$M	Unaudited Six months Dec 2022 NZ\$M	Audited Year ended June 2023 NZ\$M
Net earnings/(loss)	(120)	92	235
Earnings attributable to minority interest	3	11	19
	(117)	103	254
<i>Add/(less) non-cash items:</i>			
Depreciation, depletions and amortisation	191	180	358
Other non-cash items	282	120	211
Taxation	(42)	(120)	(102)
Net loss/(gain) on disposal of businesses and property, plant and equipment	3	(1)	
	434	179	467
Net working capital movements			
Residential and Development	(72)	(270)	(240)
Construction	(313)	(38)	(52)
Other divisions:			
Debtors	150	75	34
Inventories	3	(58)	21
Creditors	(211)	(194)	(96)
	(443)	(485)	(333)
Net cash from operating activities	(126)	(203)	388

Independent auditor's review report to the shareholders of Fletcher Building Limited

Conclusion

We have reviewed the interim financial statements of Fletcher Building Limited ("the Company") and its subsidiaries (together "the Group") on pages 16 to 33 which comprise the consolidated balance sheet as at 31 December 2023, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of movements in equity and consolidated statement of cash flows for the six months ended on that date, and a summary of significant accounting policies and other explanatory information. Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial statements on pages 16 to 33 of the Group do not present fairly, in all material respects the consolidated financial position of the Group as at 31 December 2023, and its consolidated financial performance and its consolidated cash flows for the six months ended on that date, in accordance with New Zealand Equivalent to International Accounting Standard 34: *Interim Financial Reporting* and International Accounting Standard 34: *Interim Financial Reporting*.

This report is made solely to the Company's shareholders, as a body. Our review has been undertaken so that we might state to the Company's shareholders those matters we are required to state to them in a review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders as a body, for our review procedures, for this report, or for the conclusion we have formed.

Basis for conclusion

We conducted our review in accordance with NZ SRE 2410 (Revised) *Review of Financial Statements Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's responsibilities for the review of the financial statements* section of our report. We are independent of the Group in accordance with the relevant ethical requirements in New Zealand relating to the audit of the annual financial statements, and we have fulfilled our other ethical responsibilities in accordance with these ethical requirements.

Ernst & Young provides agreed upon procedures, taxation compliance, financial statement compilation, pre-assurance over non-financial metrics and other assurance related services to the Group. Partners and employees of our firm may deal with the Group on normal terms within the ordinary course of trading activities of the business of the Group. We have no other relationship with, or interest in, the Group.

Directors' responsibility for the interim financial statements

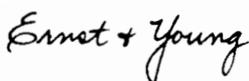
The directors are responsible, on behalf of the Entity, for the preparation and fair presentation of the interim financial statements in accordance with New Zealand Equivalent to International Accounting Standard 34: *Interim Financial Reporting* and International Accounting Standard 34: *Interim Financial Reporting* and for such internal control as the directors determine is necessary to enable the preparation and fair presentation of the interim financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibilities for the review of the interim financial statements

Our responsibility is to express a conclusion on the interim financial statements based on our review. NZ SRE 2410 (Revised) requires us to conclude whether anything has come to our attention that causes us to believe that the interim financial statements, taken as a whole, are not prepared in all material respects, in accordance with New Zealand Equivalent to International Accounting Standard 34: *Interim Financial Reporting* and International Accounting Standard 34: *Interim Financial Reporting*.

A review of interim financial statements in accordance with NZ SRE 2410 (Revised) is a limited assurance engagement. We perform procedures, consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand) and consequently do not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on those interim financial statements.

The engagement partner on the review resulting in this independent auditor's review report Brent Penrose.



Chartered Accountants
Auckland
14 February 2024

