MANAGEMENT COMMENTARY FINANCIAL RESULTS FOR THE YEAR ENDED 30 JUNE 2017

Fletcher Building posts underlying operating earnings of $525 million

Reported Results

NZ$m (except where noted)	Year ended 30 June 2017	Year ended 30 June 2016	Change %
Total revenue	**9,399**	**9,004**	**4**
Operating earnings before significant items[1]	**525**	**682**	**(23)**
Significant items[2]	(252)	37	NM
Operating earnings (EBIT)	**273**	**719**	**(62)**
Funding costs	(111)	(115)	(3)
Earnings before tax	**162**	**604**	**(73)**
Tax expense	(57)	(131)	(56)
Earnings after tax	**105**	**473**	**(78)**
Non-controlling interests	(11)	(11)	0
Net earnings	**94**	**462**	**(80)**
Net earnings before significant items	**321**	**418**	**(23)**
Earnings per share before significant items (cents)	**46.3**	**60.6**	**(24)**
Earnings per share (cents)	**13.5**	**67.0**	**(80)**
Dividends declared per share (cents)	**39.0**	**39.0**	**0**
Capital expenditure	**319**	**300**	**6**

1 Operating earnings before significant items is a non-GAAP measure used by management to assess the performance of the business and has been derived from Fletcher Building Limited's group financial statements for the year ended 30 June 2017.

2 Details of significant items can be found in note 4 of the group's financial statements.

- Revenue for the year of $9,399 million was $395 million, or 4%, higher when compared with the prior year;
- Operating earnings before significant items were $525 million, 23% lower than the prior year;
- A charge of $252 million was recognised in significant items (2016: a gain of $37 million);
- Operating earnings of $273 million were $446 million, or 62%, lower than the prior year;
- Net earnings were $94 million, down from $462 million in the prior year;
- Net earnings before significant items were $321 million, down 23% on the prior year;
- Basic earnings per share were 13.5 cents, down from 67.0 cents;
- Final dividend is 19.0 cents per share, bringing the total dividend for the year to 39.0 cents per share. The final dividend is fully imputed for New Zealand tax purposes.

Financial Results

	Revenue		
	Year ended 30 June 2017 NZ$m	Year ended 30 June 2016 NZ$m	Change %
Building Products	2,270	2,449	(7)
International	2,017	2,128	(5)
Distribution	3,287	3,184	3
Residential and Land Development	420	343	22
Construction	2,246	1,648	36
Other	9	9	0
Gross revenue	**10,249**	**9,761**	**5**
less intercompany sales	(850)	(757)	12
Group external revenue	**9,399**	**9,004**	**4**

	Reported operating earnings			Operating earnings before significant items[1]		
	Year ended 30 June 2017 NZ$m	Year ended 30 June 2016 NZ$m	Change %	Year ended 30 June 2017 NZ$m	Year ended 30 June 2016 NZ$m	Change %
Building Products	169	353	(52)	267	274	(3)
International	169	103	64	169	133	27
Distribution	40	175	(77)	193	176	10
Residential and Land Development	130	84	55	130	84	55
Construction	(204)	78	NM	(204)	78	NM
Corporate	(31)	(74)	58	(30)	(63)	52
Total	**273**	**719**	**(62)**	**525**	**682**	**(23)**
Funding costs	(111)	(115)	(3)	(111)	(115)	(3)
Earnings before tax	**162**	**604**	**(73)**	**414**	**567**	**(27)**
Tax expense	(57)	(131)	(56)	(82)	(138)	(41)
Earnings after tax	**105**	**473**	**(78)**	**332**	**429**	**(23)**
Non-controlling interests	(11)	(11)	0	(11)	(11)	0
Net earnings	**94**	**462**	**(80)**	**321**	**418**	**(23)**

1 Operating earnings before significant items is a non-GAAP measure used by management to assess the performance of the business and has been derived from Fletcher Building Limited's group financial statements for the year ended 30 June 2017. Details of significant items can be found in note 4 of the group's financial statements.

Geographic segments

	Gross revenue			External revenue		
	Year ended 30 June 2017 NZ$m	Year ended 30 June 2016 NZ$m	Change %	Year ended 30 June 2017 NZ$m	Year ended 30 June 2016 NZ$m	Change %
New Zealand	6,126	5,438	13	5,381	4,797	12
Australia	2,853	3,055	(7)	2,766	2,959	(7)
Rest of World	1,270	1,268	0	1,252	1,248	0
Total	**10,249**	**9,761**	**5**	**9,399**	**9,004**	**4**

	Operating earnings before significant items[1]		
	Year ended 30 June 2017 NZ$m	Year ended 30 June 2016 NZ$m	Change %
New Zealand	282	452	(38)
Australia	120	154	(22)
Rest of World	123	76	62
Total	**525**	**682**	**(23)**

Geographic segments in local currency

	Gross revenue			External revenue		
	Year ended 30 June 2017	Year ended 30 June 2016	Change %	Year ended 30 June 2017	Year ended 30 June 2016	Change %
Australia (A$m)	2,701	2,809	(4)	2,619	2,721	(4)
Rest of World (US$m)	905	850	6	892	837	7

	Operating earnings before significant items[1]		
	Year ended 30 June 2017	Year ended 30 June 2016	Change %
Australia (A$m)	114	142	(20)
Rest of World (US$m)	88	51	73

1 Operating earnings before significant items is a non-GAAP measure used by management to assess the performance of the business and has been derived from Fletcher Building Limited's group financial statements for the year ended 30 June 2017. Details of significant items can be found in note 4 of the group's financial statements.

- External revenue of $9,399 million was $395 million or 4% higher than the prior year. New Zealand revenue increased by $584 million, but was offset by lower revenue in Australia (primarily due to the divestment of Rocla Quarries). In local currencies, revenue increased by 12% in New Zealand, declined by 4% in Australia and increased by 7% in the Rest of World.
- Reported operating earnings before interest and tax of $273 million were 62% lower than the prior year.
- Reported operating earnings include significant items of $252 million relating to:
  - $222 million of goodwill and intangible assets have been impaired in the year, with $69 million relating to Iplex Australia and $153 million relating to Tradelink;
  - Costs of $17 million relating to site closures in Fletcher Insulation and Rocla Products;
  - $12 million relating to the costs associated with prolonged industrial action, which has now been resolved, at one of Fletcher Insulation's manufacturing sites; and
  - Costs of $1 million associated with the acquisition of the Higgins business which was completed during the year.
- Operating earnings before significant items were $525 million, 23% lower than the prior year, primarily due to losses recognised in the B+I business. When adjusting for the impact of these losses, earnings increased approximately 20%.
- In **New Zealand**, earnings benefited from continued demand across the residential building and infrastructure sectors which translated to improved Building Products, Residential and Distribution earnings alongside improved operational performance in specific business units. Excluding the results of the B+I business, New Zealand earnings were up approximately 30% on the prior year.
- In **Australia**, market conditions were mixed, with robust activity in Eastern states offset by challenging trading conditions in Western Australia where local currency revenue for the group decreased 21% compared to the prior year. Operating earnings before significant items were flat, once adjusted for divested businesses and the one-off property gain in Tradelink in the prior year.
- In the **Rest of World**, earnings in local currency increased 73% driven by strong performances in Formica's Asian operations, and significant year-on-year improvement in Formica Europe, alongside the Construction South Pacific business and contributions from the Higgins Fiji operations acquired in July 2016.
- Funding costs of $111 million were 3% lower than the prior year. Whilst increased interest costs resulted from higher debt levels at the end of the year these were more than offset by the impact of derivative valuation changes in the year.
- The tax expense of $57 million represents an effective tax rate for the year of 35% (2016: 22%) which has been influenced by the significant items reported during the year. Excluding significant items the effective tax rate was 20% and is expected to return to normal levels in FY18.
- Earnings per share were 13.5 cents, a decrease from 67.0 cents per share in the prior year.
- Earnings per share before significant items were 46.3 cents, a decrease from 60.6 cents in the prior year.
- Cash from operations of $243 million, compared with $660 million in the prior year, reflected lower operating earnings, continued investment in residential land and increased working capital across the group as activity levels increased.

Segmental Operational Review

The following sections provide commentary on individual division results for the year ended 30 June 2017.

Building Products

Concrete Pipes & Products, Cement & Aggregates; Building Materials; Plastic Pipes

	Year ended 30 June 2017 NZ$m	Year ended 30 June 2016 NZ$m	Change NZ$m	Change %
Gross revenue	2,270	2,449	(179)	(7)
External revenue	1,783	1,969	(186)	(9)
Operating earnings before significant items[1]	267	274	(7)	(3)
Significant items[2]	(98)	79	(177)	NM
Operating earnings	169	353	(184)	(52)
Funds	1,666	1,581	85	5

	Operating earnings before significant items[1]		
	Year ended 30 June 2017 NZ$m	Year ended 30 June 2016 NZ$m	Change %
Concrete Pipes & Products	60	59	2
Cement & Aggregates	74	68	9
Building Materials	102	93	10
Plastic Pipes	20	14	43
JV Earnings and other	11	18	(39)
Subtotal	**267**	**252**	**6**
Divested businesses	**0**	**22**	**NM**
Total	**267**	**274**	**(3)**

1 Operating earnings before significant items is a non-GAAP measure used by management to assess the performance of the business and has been derived from Fletcher Building Limited's group financial statements for the year ended 30 June 2017.

2 Details of significant items can be found in note 4 of the group's financial statements.

The Building Products division reported gross revenue of $2,270 million compared with $2,449 million in the prior year, a reduction of 7%. Adjusting for divested businesses (Pacific Steel and Rocla Quarries), and changes in Joint Venture accounting (Altus), revenue was flat year-on-year.

Operating earnings before significant items were $267 million, 3% lower than $274 million in the prior year, however, adjusting for divested businesses, operating earnings increased 6% with a number of New Zealand businesses recording record volumes.

Operating earnings before significant items for Concrete Pipes & Products were $60 million, compared to $59 million in the prior year, a 2% increase. The result included a gain from a property sale in New Zealand of $12 million. Excluding the property gain, the New Zealand concrete products business increased earnings by 15%, with ready-mix concrete volumes increasing 3%. New Zealand concrete pipe volumes increased 9%, however, earnings were down $3 million due to margin compression. Concrete pipe volumes in Australia were flat year-on-year, however operating earnings decreased $12 million from the prior year, negatively impacted by lower pricing and operational issues at a key manufacturing site. Interventions to lay foundations for performance improvements in FY18 have been made.

Operating earnings for Cement and Aggregates were $74 million, compared to $68 million in the prior year, a 9% increase. This was primarily driven by New Zealand aggregates volumes which were 29% higher than prior year and a modest increase in cement volumes of 4%, combined with a favourable change in the mix of regional quarrying volumes.

Operating earnings before significant items for the Building Materials businesses were $102 million, compared to $93 million in the prior year, a 10% increase. Plasterboard volumes were up 6% overall, with volumes of performance boards increasing 2%. Whilst New Zealand glasswool volumes remained flat compared to the prior year, the operating earnings of the New Zealand insulation business more than doubled primarily as a result of price increase initiatives and production improvements. Earnings from the Australian insulation business declined $2 million versus the prior year, due mainly to costs associated with key transformation initiatives, including the recommissioning of the Rooty Hill plant in Sydney.

The Plastic Pipes businesses reported $20 million operating earnings before significant items, a $6 million improvement on the prior year. Operating earnings in the New Zealand plastic pipes business increased by $2 million as a result of higher plumbing and civil volumes, favourable product mix and operational efficiencies. In Australia, the plastic pipes business returned to profitability with operating earnings before significant items increasing by $4 million from the prior year. Operating efficiencies and market share gains in the plumbing segment more than offset reduced volumes, which decreased by 1% due to softening demand particularly in the irrigation and mining segments, as well as continued reduction in demand from coal seam gas projects.

Significant items of $98 million reported in the year comprise the impairment of Iplex Australia intangible assets ($69 million), costs relating to the closure of three sites in Australia ($17 million) and costs incurred in Fletcher Insulation as a result of prolonged industrial action at one of the business's manufacturing sites ($12 million). This compared to a net gain of $79 million in the prior year which was primarily attributable to the sale of Rocla Quarries.

International

Laminex; Formica; Roof Tile Group

	Year ended 30 June 2017 NZ$m	Year ended 30 June 2016 NZ$m	Change NZ$m	Change %
Gross revenue	2,017	2,128	(111)	(5)
External revenue	1,999	2,106	(107)	(5)
Operating earnings before significant items[1]	169	133	36	27
Significant items[2]	0	(30)	30	NM
Operating earnings	169	103	66	64
Funds	1,938	1,902	36	2

	Operating earnings before significant items[1]		
	Year ended 30 June 2017 NZ$m	Year ended 30 June 2016 NZ$m	Change %
Laminex	90	80	13
Formica	88	62	42
Roof Tile Group	13	14	(7)
International divisional costs	(22)	(23)	(4)
Total	**169**	**133**	**27**

1 Operating earnings before significant items is a non-GAAP measure used by management to assess the performance of the business and has been derived from Fletcher Building Limited's group financial statements for the year ended 30 June 2017.

2 Details of significant items can be found in note 4 of the group's financial statements.

Operating earnings before significant items for the International division increased 27% to $169 million from $133 million in the prior year. This was primarily driven by the turnaround of Formica Europe and improvement of the Laminex businesses.

Laminex's operating earnings increased by 13% to $90 million compared to $80 million in the prior year.

Operating earnings in Laminex Australia were $76 million, up 6% on the prior year. Gross revenue in Australia decreased by 4% in Australian dollars terms, due largely to continuing weaknesses in the Western Australia residential sector offset by growth in the Eastern states. Operating earnings were positively impacted by optimised pricing, operational efficiency improvements plus continued reductions in overheads, offset in part by increasing energy prices which negatively impacted production costs.

Operating earnings excluding significant items in Laminex New Zealand increased from $8 million to $14 million. Gross revenue in New Zealand increased by 6%. The year-on-year earnings growth was due to strengthening margins, improved share in the decorated board business, as well as improvements in operational efficiency.

Operating earnings excluding significant items for Formica were $88 million, an increase of 42% on the prior year. In local currencies, overall gross revenue was up by 3% on last year.

In North America, operating earnings were $53 million, down by 5% on the prior year. Operating earnings in local currency were in line with the prior year as strong operational performance of the manufacturing plants in the US and Canada was partially offset by unfavourable product and market mix. Gross revenue in local currency increased by 1% on the prior year, supported by volume growth of 3%.

In Asia, operating earnings increased 35% to $31 million driven largely by revenue growth, lower raw material prices and improved manufacturing efficiencies across all four factories in Asia. Gross revenue in local currency was up by 6% on the prior year. The key markets of ASEAN, China and Taiwan generated revenue growth of 13%, 6% and 1% respectively.

In Europe, operating earnings excluding significant items of $4 million was a $21 million improvement on the loss of $17 million in the prior year. This was attributable to a local currency gross revenue increase of 2%, significant improvements in operational performance at the main UK manufacturing plant and continued overhead cost reductions across the business.

Operating earnings in the Roof Tile Group were down by $1 million to $13 million. Gross revenue in local currencies was down by 5% on the prior year driven predominantly by deteriorating economic conditions in Africa, where volumes fell by 31%, with a resulting $5 million decrease in operating earnings. Elsewhere in the core markets of the Americas, Asia and Europe, volumes increased by 8%, 4% and 4% respectively.

Distribution

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

	Year ended 30 June 2017 NZ$m	Year ended 30 June 2016 NZ$m	Change NZ$m	Change %
Gross revenue	3,287	3,184	103	3
External revenue	3,112	3,026	86	3
Operating earnings before significant items[1]	193	176	17	10
Significant items[2]	(153)	(1)	(152)	NM
Operating earnings	40	175	(135)	(77)
Funds	935	1,001	(66)	(7)

	Operating earnings before significant items[1]		
	Year ended 30 June 2017 NZ$m	Year ended 30 June 2016 NZ$m	Change %
NZ Building Supplies	104	85	22
NZ Steel Distribution	54	44	23
Australian Building Supplies	10	27	(63)
Australian Steel Distribution	25	20	25
Total	**193**	**176**	**10**

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2 Details of significant items can be found in note 4 of the group's financial statements.

The Distribution division reported operating earnings of $40 million, compared with $175 million in the prior year.

This result includes significant items of $153 million relating to the impairment of intangible assets in the Tradelink business.

Operating earnings before significant items for the year were $193 million, an increase of 10% on the prior year. Year-on-year earnings growth was delivered from an increase in local currency gross revenue of 7% in New Zealand and 1% in Australia, alongside both gross margin and operating cost efficiencies.

The New Zealand Building Supplies businesses reported increased operating earnings of 22%. This was achieved through revenue growth of 6% including market share gains, improved gross margins and controlled operating costs, including benefits from ongoing branch co-locations and operating leverage. Continued growth was seen across the NZ regions, with the exception of the Canterbury market which contracted year-on-year as the market resets from the highs of the residential rebuild.

PlaceMakers gross revenue of $1.2 billion was up 6% on the prior year, reflecting growth in core categories such as timber, frame and truss, and insulation, as well as in targeted categories such as fastenings, doors and windows. Mico's gross revenue also increased by 6% to $250 million, with market share gains in both the bathroom segment and plumbing supplies.

The New Zealand Steel Distribution businesses grew operating earnings before significant items by 23% to $54 million, reflecting profitable market share gains across all business groupings. These gains, along with improved margins and cost control led to the double-digit growth in operating earnings.

In Australian Building Supplies, Tradelink's operating earnings before significant items were $5 million, $17 million lower than the prior year. The prior year result included a $14 million net gain from property sales offset by one-off costs. The recessionary effects in Western Australia affected the underlying performance of the business, with local currency gross revenue flat despite traction in both new stores and in the small and medium enterprise customer segment.

Australian Steel Distribution's focus on efficiency and cost control increased operating earnings by 25% alongside growth in key target market segments, including sheds, residential and commercial projects.

Across the division, a focus on targeted growth and operating improvements during the year saw 20 new Tradelink branches open in Australia and significant refurbishment and reinvestment in over 20 branches across the NZ business units.

Residential and Land Development

NZ Residential; Land Development

	Year ended 30 June 2017 NZ$m	Year ended 30 June 2016 NZ$m	Change NZ$m	Change %
Gross revenue	420	343	77	22
External revenue	420	343	77	22
Operating earnings	130	84	46	55
Funds	541	355	186	52

	Operating earnings		
	Year ended 30 June 2017 NZ$m	Year ended 30 June 2016 NZ$m	Change %
NZ Residential	76	74	3
Land Development	54	10	NM
Total	**130**	**84**	**55**

The Residential and Land Development division reported operating earnings of $130 million, a 55% increase on the prior year.

Gross revenue for the year was $420 million, up from $343 million in the prior year.

NZ Residential operating earnings were $76 million, 3% higher than the prior year. There was an increase in the volumes of units sold to 499 in FY17. This reflected a higher number of sales in the new developments of Swanson, Whenuapai, Beachlands and Red Beach offsetting a decrease in volumes sold at the highly successful developments of Greenhithe and Stonefields.

The Christchurch business continued to progress a number of developments in partnership with the Crown. At Awatea, 60 homes were sold during the year, including 26 affordable homes to first home buyers and 10 homes to charitable housing providers for use as intermediate housing. In addition, we sold a number of units at the private developments of Longhurst and Farringdon.

Overall, NZ Residential sales volumes were behind expectations due to the delayed delivery of land. Average margins, however, were ahead of expectations, driven by continued strong Auckland pricing. The rate of increase in the residential market has slowed since January, signalling a return to more normal market conditions.

Land Development operating earnings were $54 million. This business comprises a combination of residential and commercial land developments for on sale to third parties. This included the sale of the final lot at the James Fletcher Drive development and the sale of the first lot at the Wiri North development.

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

At year end there were 3,842 lots on balance sheet with a further 2,227 lots under unconditional agreements, to be delivered over the next five years.

Funds employed increased to $541 million from $355 million in the prior year. This was driven by a combination of development work on previously acquired residential sites; an increase in work in progress as the business builds its volumes, in particular in medium-rise apartment delivery, and the settlement of lots purchased from other developers in Beachlands, Penihana, Hobsonville and Whenuapai.

Construction

Construction New Zealand; Construction South Pacific

	Year ended 30 June 2017 NZ$m	Year ended 30 June 2016 NZ$m	Change NZ$m	Change %
Gross revenue	2,246	1,648	598	36
External revenue	2,085	1,560	525	34
Operating earnings	(204)	78	(282)	NM
Funds	174	(18)	192	NM

	Operating earnings		
	Year ended 30 June 2017 NZ$m	Year ended 30 June 2016 NZ$m	Change %
Construction New Zealand	(241)	58	NM
Construction South Pacific	37	20	85
Total	**(204)**	**78**	**NM**

The Construction division reported an operating loss of $204 million compared with operating earnings of $78 million in the prior year. The result includes a positive contribution of $39 million from the Higgins contracting business which was acquired in July 2016.

The Infrastructure, Higgins and South Pacific businesses all recorded strong operating and trading performances in 2017. However, the Building and Interiors (B+I) business unit recorded an operating loss of $292 million, due to losses identified on two large and highly complex projects, and a number of smaller construction jobs.

During the year, following the identification of losses on one major project, a thorough review of the B+I business was undertaken and led to the introduction of new management and governance processes along with the implementation of a new financial management reporting system. These new governance processes along with ongoing project reviews, have indicated significantly higher costs to complete projects across the portfolio, and have also enabled improved quantification of remaining risks. In addition, the detailed review by new management has led to downward revisions in expected profits on a number of smaller projects.

The Infrastructure business reported operating earnings of $31 million, compared with $35 million in the prior year. Work on two major road contracts, the Waterview tunnel in Auckland and the MacKay's to Peka Peka project north of Wellington, reached practical completion during the year. Financial close was achieved on the 18.5 kilometres Pūhoi to Warkworth motorway to extend Auckland's Northern Motorway, with completion scheduled for late 2021. This project, which has been procured as a PPP (Private Public Partnership), has a total value across all partners of $710 million. The project partners comprise Fletcher Construction, Higgins and Acciona. Work also started on the design and construct continuation of the Kāpiti Expressway, from Peka Peka to Otaki.

Higgins recorded operating earnings of $39 million from its New Zealand and Fiji operations, which was ahead of forecasts established during the acquisition process. Higgins has been fully integrated into the Construction division and has continued to operate very successfully under existing management while leveraging Fletcher Building's scale and structure. In late November 2016, Higgins was one of four parties asked to join the North Canterbury Transport Infrastructure Rebuild Alliance (NCTIR) to perform recovery works in response to the Kaikoura earthquakes. A strong team has been mobilised, supported with resources from the Infrastructure business unit, and significant progress has been made in restoring road and rail connections in the upper South Island region.

Construction South Pacific reported operating earnings of $37 million, an increase from $20 million in the prior year. The increase in earnings includes a contribution from Higgins Fijian operations, together with the declaration of final margins on several key projects in Papua New Guinea and American Samoa as these reached the end of their defects liability periods. In Fiji, work on the Momi Bay Resort was completed, while further work was undertaken on a hotel development in Papua New Guinea.

Group Cash Flow

	Year ended 30 June 2017 NZ$m	Year ended 30 June 2016 NZ$m	Change NZ$m
Operating earnings before significant items[1]	**525**	**682**	**(157)**
Depreciation and amortisation	203	194	9
Less cash tax paid	(99)	(97)	(2)
Less interest paid	(125)	(118)	(7)
Provisions, significant items and other	(85)	(99)	14
Results from operations before working capital movements	**419**	**562**	**(143)**
Land and developments	(99)	(66)	(33)
Other working capital movements	(77)	164	(241)
Cash flows from operating activities	**243**	**660**	**(417)**

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

Cash flows from operating activities of $243 million were 63% lower than the prior year. Cash flows from operations before working capital movements were $419 million, down from $562 million due to lower earnings resulting from the construction losses. The working capital movement was also adverse, with continued investment in residential land ($99 million) and increased inventory and debtors balances ($165 million), resulting from higher activity levels along with large receivables in our Residential and Developments business at year end. Contracts cash flow was positive reflecting the losses recognised but not incurred as cash in the Construction business.

Capital expenditure

	Year ended 30 June 2017 NZ$m	Year ended 30 June 2016 NZ$m	Change NZ$m
Capital expenditure	319	300	19

Capital expenditure was $319 million, compared with $300 million in the prior year. Of this total, $182 million was for stay-in-business capital projects and $137 million related to new growth initiatives. The increased capital expenditure in FY17 was due principally to investment in the Formica UK manufacturing site and the Cement and Aggregates business, especially quarry stripping and the Golden Bay Cement supply chain.

For 2018, capital expenditure is expected to be in the range of $275 million to $325 million.

Funding

Total available funding as at 30 June 2017 was $2,666 million. Of this, $536 million was undrawn and there was an additional $219 million of cash on hand. Drawn debt facilities maturing within the next 12 months total $198 million and a further $71 million of capital notes are subject to interest rate and term reset.

The group's gearing[1] at 30 June 2017 was 35.3% compared with 27.3% at 30 June 2016. Gearing has returned to the target range following completion of the Higgins acquisition.

The group's leverage[2] at 30 June 2017 was 2.7 times compared with 1.6 times at 30 June 2016. Whilst just outside the target range of 2.0–2.5 times, the expectation is that this will return to within the range in 2018.

The average maturity of the debt is 4.7 years and the hedged currency split is 34% Australian dollar; 49% New Zealand dollar; 10% US dollar; and 7% spread over various other currencies.

Approximately 44% of all borrowings have fixed interest rates with an average duration of 3.8 years and a rate of 5.9%. Inclusive of floating rate borrowings, the average interest rate on the debt is approximately 4.8%.

Interest coverage[3] at 30 June 2017 was 4.7 times compared with 5.9 times at 30 June 2016.

1 Interest bearing net debt (including capital notes) to interest bearing net debt (including capital notes) and equity.

2 Interest bearing net debt (including capital notes) to EBITDA before significant items.

3 EBIT before significant items to total interest paid including capital notes interest.

Dividend

The 2017 final dividend is 19 cents per share. In line with the group's tax crediting policy announced in August 2016, the final dividend will be fully imputed with New Zealand tax credits and unfranked for Australian tax purposes. The imputed amount per share on the dividend is 7.3889 cents.

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

The dividend will be paid on 11 October 2017 to holders registered as at 5.00 pm Friday 22 September 2017 (NZT). The shares will be quoted on an ex dividend basis from 21 September 2017 on the NZX and ASX.

The interim dividend of 20 cents per share was paid on 12 April 2017 and the imputed amount per share on the interim dividend was 7.7778 cents per share.

DIVIDEND REINVESTMENT PLAN

Fletcher Building shareholders (excluding those in jurisdictions where the issue of shares is not permitted by law) can participate in a Dividend Reinvestment Plan ("the Plan"), under which they have the opportunity to reinvest their dividends in additional shares. The Plan will be operative for this dividend payment. There will be no discount to the price applied to ordinary shares issued. Documentation for participation is available from the share registry or the website www.fbu.com and must be received by the registry before 5.00 pm Monday 25 September 2017. The price used to determine entitlements under the Plan is the average of the individual daily volume weighted average sale prices of price-setting trades of the company's shares sold on the NZX on each of the five business days from and including the ex dividend date of 21 September 2017. The new shares will rank equally with existing shares and will be issued on the dividend payment date of 11 October 2017.

DIVIDEND POLICY

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

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

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

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

2017 Final Dividend Summary Table[1]

NZ cents per share	NZ Residents on Top Marginal Tax Rate of 33%	Australian Residents on Top Marginal Tax rate of 47%	Australian Residents on 15% Tax Rate	Other Non Residents[8]
Dividend declared	19.0000	19.0000	19.0000	19.0000
NZ imputation credits[2]	7.3889			
NZ supplementary dividend[3]		3.3529	3.3529	3.3529
Australian franking credits[4]		0.0000	0.0000	
Gross dividend for NZ tax purposes	**26.3889**	**22.3529**	**22.3529**	**22.3529**
NZ tax (33%)[5]	(8.7083)			
NZ non-resident withholding tax (15%)[6]		(3.3529)	(3.3529)	(3.3529)
Net cash received after NZ tax	**17.6806**	**19.0000**	**19.0000**	**19.0000**
Australian tax (49% and 15%)[7]		(10.5059)	(3.3529)	
Reduced by offset for NZ non-resident withholding tax		3.3529	3.3529	
Less Australian franking credit offset		0.0000	0.0000	
Net cash dividend to shareholders after tax	**17.6806**	**11.8470**	**19.0000**	**19.0000**

1 This summary is of a general nature and the tax rates used and the calculations are intended for guidance only. As individual circumstances will vary, shareholders are advised to seek independent advice.

2 The dividend has imputation credits attached at a 28% tax rate.

3 A supplementary dividend is only payable to non-New Zealand shareholders and has the effect of removing the cost of New Zealand non-resident withholding tax (NRWT). Non-resident shareholders with a 10% or greater direct shareholding are not eligible to receive supplementary dividends but are exempt from NRWT.

4 There are no Australian franking credits attached to this dividend.

5 For all NZ resident shareholders who do not hold an exemption certificate, resident withholding tax (RWT) is required to be deducted at 5% from the gross dividend which has been credited with imputation credits at 28 percent. Accordingly, for those shareholders, a deduction of 1.3194 cents per share will be made on the date of payment from the dividend declared of 19.0 cents per share and forwarded to Inland Revenue. Resident shareholders who have a tax rate less than 33% will need to file a tax return to obtain a credit for the RWT deduction in excess of their marginal tax rate.

6 NZ non-resident withholding tax at the rate of 15% on the gross dividend for NZ tax purposes.

7 This summary uses two examples of the effect of tax in Australia. The first uses the top marginal tax rate of 47%, including the Medicare levy (the Temporary Budget Repair Levy ceased on 30 June 2017). The second example uses the 15% income tax rate applicable in Australia to complying superannuation funds, approved deposit funds and pooled superannuation trusts. Different tax rates will apply to other Australian shareholders, including individuals, depending on their circumstances.

The Australian tax is calculated as:	47% Rate	15% Rate
Gross dividend for NZ tax purposes	22.3529	22.3529
plus franking credits	0.0000	0.0000
Gross dividend for Australian tax purposes	22.3529	22.3529
Australian tax	10.5059	3.3529

8 This illustration does not purport to show the taxation consequences of the dividend for non-residents of New Zealand or Australia. Shareholders resident in other countries are encouraged to consult their own taxation advisor.

Outlook

In New Zealand, current levels of activity are expected to be maintained in the residential construction market, with sustained high levels of migration underpinning demand for new homes, especially in Auckland. Increases in mortgage rates and home loan restrictions put in place by major lenders have recently taken some of the heat out of price increases in the Auckland housing market, but demand is expected to remain robust over the medium term given the strong economic and demographic fundamentals.

Infrastructure work is expected to remain at elevated levels in New Zealand in 2018 and beyond, due to the significant pipeline of state funded projects, particularly in the transport sector. The commercial construction pipeline is likely to moderate as a number of large projects currently under construction near completion and corporate profitability growth tempers.

In Australia, the Western Australian economy appears to be stabilising after large declines while the Eastern states (Victoria, New South Wales and Queensland) are likely to dominate economic growth in Australia in the near to medium term. In the residential sector, Fletcher Building is principally exposed to stand-alone housing, where activity is likely to remain solid, while multi-family dwelling demand (which is less significant for Fletcher Building) looks to have peaked and will decline in the near term. Spend on infrastructure projects in Eastern states by state and federal governments looks likely to expand, especially in the transport sector.

The Asian market for laminates and decorative surfaces is expected to continue to grow, but at a lower rate of around 3% to 4%, with China, Thailand and Malaysia at levels higher than Singapore, Taiwan, Hong Kong and Korea. Growing manufacturing overcapacities in some Asian geographies are expected to result in high competitive intensity. The North American and European markets for laminates are expected to grow at modest rates in local currency terms.

Group operating earnings before significant items in FY18 will benefit from a significantly improved performance of the Construction division, reflecting the turnaround of the Buildings + Interiors (B+I) business. Following a year where corporate costs were reduced significantly by the reduction of incentives paid to some staff, FY18 will likely see a return of corporate costs closer to normalised levels.

Operating cash flows will improve in FY18 despite being adversely impacted by negative cash flows on major B+I projects. This is expected to result in a temporary increase in net debt in FY18. Gearing is expected to remain stable at around the mid-point of the 30% to 40% target range while leverage will return to within the target 2.0 times to 2.5 times range as EBITDA improves.

The following outlook comments can be made by division:

Building Products – the focus will continue to be on achieving volume and pricing growth, and leveraging this to improve margins. Additional focus will be on improving the performance of specific Australian businesses that have either been subject to industry constraints, operating underperformance or recent industrial action. New Zealand businesses will be looking to counter effects of being at or near full capacity by improving production practices and supply chain management.

International – operating earnings are expected to benefit from continued operational improvements in the UK and efficiency and growth initiatives across the division while market activity in key markets such as Spain, France, Western Australia, and Taiwan are expected to be flat and growth forecasts for North America and Asia are expected to be only modest. Performance for the Roof Tile Group is expected to improve over the year, driven particularly by sales volumes in North America. Exchange rates between the NZD and the major trading currencies may impact the result upon translation into NZD.

Distribution – in New Zealand, businesses are targeting low single-digit increases in gross revenue and operating earnings. In Australia, Tradelink's turnaround is expected to help growth, with a focus on opening another 20 new stores in FY18, refocusing on the SME sector and recapturing market share. Stramit is expected to consolidate its recent strong growth.

Residential & Land Development – the total number of houses built and sold by the division is expected to increase in FY18 while the different mix in location of sales and slowing price growth in the Auckland market are expected to reduce average margins. Land Development earnings will be subject to the lumpiness of a small number of significant property sales being executed, but still targets an amount in excess of $25 million.

Construction – operating earnings will benefit from a turnaround of the B+I business, but will be slightly below the long run mid-cycle earnings due to the South Pacific backlog taking some time to replenish, and two large Infrastructure projects not yet sufficiently advanced for earnings to be recognised under the group's policy.

Divisions

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

Appendix: Supplemental split of Divisional Results

GROSS REVENUE

Building Products

Gross revenue	Year ended 30 June 2017 NZ$m	Year ended 30 June 2016 NZ$m	Change %
Concrete Pipes & Products	811	770	5
Cement and Aggregates	396	373	6
Building Materials	467	466	0
Plastic Pipes	518	546	(5)
Joint Ventures & other	78	194	(60)
Subtotal	**2,270**	**2,349**	**(3)**
Divested businesses	0	100	NM
Total	**2,270**	**2,449**	**(7)**

International

Gross revenue	Year ended 30 June 2017 NZ$m	Year ended 30 June 2016 NZ$m	Change %
Laminex	915	966	(5)
Formica	933	980	(5)
Roof Tile Group	169	182	(7)
Total	**2,017**	**2,128**	**(5)**

Distribution

Gross revenue	Year ended 30 June 2017 NZ$m	Year ended 30 June 2016 NZ$m	Change %
NZ Building Supplies	1,519	1,432	6
Australia Building Supplies	785	805	(2)
NZ Steel Distribution	491	445	10
Australia Steel Distribution	492	502	(2)
Total	**3,287**	**3,184**	**3**

Residential and Land Development

Gross revenue	Year ended 30 June 2017 NZ$m	Year ended 30 June 2016 NZ$m	Change %
NZ Residential	340	330	3
Land Development	80	13	NM
Total	**420**	**343**	**22**

Construction

Gross revenue	Year ended 30 June 2017 NZ$m	Year ended 30 June 2016 NZ$m	Change %
Construction New Zealand	2,049	1,501	37
Construction South Pacific	197	147	34
Total	**2,246**	**1,648**	**36**

Appendix: Supplemental split of Divisional Results continued

LOCAL CURRENCY GROSS REVENUE

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

Building Products

Gross revenue	Year ended 30 June 2017	Year ended 30 June 2016	Change %
New Zealand (NZ$m)	1,466	1,532	(4)
Australia (A$m)	761	843	(10)

International

Gross revenue	Year ended 30 June 2017	Year ended 30 June 2016	Change %
New Zealand (NZ$m)	174	176	(1)
Australia (A$m)	736	769	(4)
Rest of World (US$m)	760	748	2

Distribution

Gross revenue	Year ended 30 June 2017	Year ended 30 June 2016	Change %
New Zealand (NZ$m)	2,012	1,878	7
Australia (A$m)	1,204	1,197	1

Residential and Land Development

Gross revenue	Year ended 30 June 2017	Year ended 30 June 2016	Change %
New Zealand (NZ$m)	418	343	22
Rest of World (US$m)	1	0	NM

Construction

Gross revenue	Year ended 30 June 2017	Year ended 30 June 2016	Change %
New Zealand (NZ$m)	2,049	1,501	37
Rest of World (US$m)	140	99	41

Appendix: Supplemental split of Divisional Results continued

EXTERNAL REVENUE

Building Products

External revenue	Year ended 30 June 2017 NZ$m	Year ended 30 June 2016 NZ$m	Change %
Concrete Pipes & Products	717	681	5
Cement and Aggregates	208	193	8
Building Materials	349	345	1
Plastic Pipes	431	456	(5)
Joint Ventures & other	78	194	(60)
Subtotal	**1,783**	**1,869**	**(5)**
Divested businesses	0	100	NM
Total	**1,783**	**1,969**	**(9)**

International

External revenue	Year ended 30 June 2017 NZ$m	Year ended 30 June 2016 NZ$m	Change %
Laminex	898	948	(5)
Formica	933	978	(5)
Roof Tile Group	168	180	(7)
Total	**1,999**	**2,106**	**(5)**

Distribution

External revenue	Year ended 30 June 2017 NZ$m	Year ended 30 June 2016 NZ$m	Change %
NZ Building Supplies	1,470	1,392	6
Australia Building Supplies	782	802	(2)
NZ Steel Distribution	378	340	11
Australia Steel Distribution	482	492	(2)
Total	**3,112**	**3,026**	**3**

Residential and Land Development

External revenue	Year ended 30 June 2017 NZ$m	Year ended 30 June 2016 NZ$m	Change %
NZ Residential	340	330	3
Land Development	80	13	NM
Total	**420**	**343**	**22**

Construction

External revenue	Year ended 30 June 2017 NZ$m	Year ended 30 June 2016 NZ$m	Change %
Construction New Zealand	1,888	1,413	34
Construction South Pacific	197	147	34
Total	**2,085**	**1,560**	**34**

Appendix: Supplemental split of Divisional Results continued

LOCAL CURRENCY EXTERNAL REVENUE

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

Building Products

External revenue	Year ended 30 June 2017	Year ended 30 June 2016	Change %
New Zealand (NZ$m)	1,052	1,134	(7)
Australia (A$m)	692	768	(10)

International

External revenue	Year ended 30 June 2017	Year ended 30 June 2016	Change %
New Zealand (NZ$m)	173	174	(1)
Australia (A$m)	735	768	(4)
Rest of World (US$m)	748	736	2

Distribution

External revenue	Year ended 30 June 2017	Year ended 30 June 2016	Change %
New Zealand (NZ$m)	1,850	1,733	7
Australia (A$m)	1,192	1,185	1

Residential and Land Development

External revenue	Year ended 30 June 2017	Year ended 30 June 2016	Change %
New Zealand (NZ$m)	418	343	22
Rest of World (US$m)	1	0	NM

Construction

External revenue	Year ended 30 June 2017	Year ended 30 June 2016	Change %
New Zealand (NZ$m)	1,888	1,413	34
Rest of World (US$m)	140	99	41

Appendix: Supplemental split of Divisional Results continued

OPERATING EARNINGS BEFORE SIGNIFICANT ITEMS

Building Products

Operating earnings[1]	Year ended 30 June 2017 NZ$m	Year ended 30 June 2016 NZ$m	Change %
Concrete Pipes & Products	60	59	2
Cement and Aggregates	74	68	9
Building Materials	102	93	10
Plastic Pipes	20	14	43
Joint Ventures & other	11	18	(39)
Subtotal	267	252	6
Divested businesses	0	22	NM
Total	**267**	**274**	**(3)**

International

Operating earnings[1]	Year ended 30 June 2017 NZ$m	Year ended 30 June 2016 NZ$m	Change %
Laminex	90	80	13
Formica	88	62	42
Roof Tile Group	13	14	(7)
International divisional costs	(22)	(23)	(4)
Total	**169**	**133**	**27**

Distribution

Operating earnings[1]	Year ended 30 June 2017 NZ$m	Year ended 30 June 2016 NZ$m	Change %
NZ Building Supplies	104	85	22
Australia Building Supplies	10	27	(63)
NZ Steel Distribution	54	44	23
Australia Steel Distribution	25	20	25
Total	**193**	**176**	**10**

Residential and Land Development

Operating earnings	Year ended 30 June 2017 NZ$m	Year ended 30 June 2016 NZ$m	Change %
NZ Residential	76	74	3
Land Development	54	10	NM
Total	**130**	**84**	**55**

Construction

Operating earnings	Year ended 30 June 2017 NZ$m	Year ended 30 June 2016 NZ$m	Change %
Construction New Zealand	(241)	58	NM
Construction South Pacific	37	20	85
Total	**(204)**	**78**	**NM**

1 Operating earnings before significant items – a non-GAAP measure used by management to assess the performance of the business, derived from Fletcher Building Limited's financial statements for the year ended 30 June 2017. Details of significant items can be found in note 4 of the financial statements.

Appendix: Supplemental split of Divisional Results continued

LOCAL CURRENCY OPERATING EARNINGS BEFORE SIGNIFICANT ITEMS

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

Building Products

Operating earnings[1]	Year ended 30 June 2017	Year ended 30 June 2016	Change %
New Zealand (NZ$m)	258	238	8
Australia (A$m)	9	33	(73)

International

Operating earnings[1]	Year ended 30 June 2017	Year ended 30 June 2016	Change %
New Zealand (NZ$m)	19	17	12
Australia (A$m)	68	63	8
Rest of World (US$m)	56	32	75

Distribution

Operating earnings[1]	Year ended 30 June 2017	Year ended 30 June 2016	Change %
New Zealand (NZ$m)	159	130	22
Australia (A$m)	32	42	(24)

Residential and Land Development

Operating earnings	Year ended 30 June 2017	Year ended 30 June 2016	Change %
New Zealand (NZ$m)	128	84	52
Rest of World (US$m)	1	0	NM

Construction

Operating earnings	Year ended 30 June 2017	Year ended 30 June 2016	Change %
New Zealand (NZ$m)	(241)	58	NM
Rest of World (US$m)	26	13	100

1 Operating earnings before significant items – a non-GAAP measure used by management to assess the performance of the business, derived from Fletcher Building Limited's financial statements for the year ended 30 June 2017. Details of significant items can be found in note 4 of the financial statements.