MANAGEMENT COMMENTARY

FINANCIAL RESULTS
FOR THE SIX MONTHS ENDED
31 DECEMBER 2017

Reported results	Six months ended 31 December		
NZ$m (except where noted)	2017	2016	Change %
Total revenue	**4,889**	**4,613**	**6%**
Operating earnings before significant items [1]	**(322)**	**310**	**NM**
Significant items [2]	0	(16)	**NM**
Operating earnings (EBIT)	**(322)**	**294**	**NM**
Funding costs	(63)	(52)	21%
Earnings/(loss) before tax	**(385)**	**242**	**NM**
Tax benefit/(expense)	117	(61)	NM
Earnings/(loss) after tax	**(268)**	**181**	**NM**
Non-controlling interests	(5)	(5)	**0%**
Net earnings/(loss)	**(273)**	**176**	**NM**
Net earnings/(loss) before significant items	**(273)**	**187**	**NM**
Basic earnings per share (cents)	**(39.2)**	**25.4**	**NM**
Basic earnings per share before significant items (cents)	**(39.2)**	**27.0**	**NM**
Dividends declared per share (cents)	**0.0**	**20.0**	**NM**
Cash flows from operating activities	**110**	**(67)**	**NM**
Capital expenditure	**131**	**127**	**3%**

Operating earnings before significant items	**(322)**	**310**	**NM**
Building & Interiors (B+I)	**(631)**	**(47)**	**NM**
Operating earnings (excluding B+I) before significant items	**309**	**357**	**(13)%**

[1] Operating earnings before significant items is a non-GAAP measure used by management to assess the performance of the business and has been derived from Fletcher Building Limited's interim financial statements for the period ended 31 December 2017.
[2] Details of significant items can be found in note 4 of the interim financial statements.

- Revenue for the period of $4,889 million was $276 million, or 6%, higher when compared with the prior corresponding period;
- Operating earnings before significant items were a loss of $322 million, which included losses in the Building + Interiors ("B+I") business of $631 million;
- There were no significant items recognised during the period (2016: a charge of $16 million);
- Operating earnings (excluding B+I) before significant items of $309 million were $48 million, or 13%, lower than the prior corresponding period;
- Net earnings were a loss of $273 million, down from a profit of $176 million in the prior corresponding period;
- In line with the Company's Dividend Policy, the Board has determined that it will not declare an interim dividend.

Financial Results

	Six months ended 31 December		
	Revenue		
NZ$m	2017	2016	Change
Building Products	1,250	1,108	13%
International	1,045	1,005	4%
Distribution	1,757	1,644	7%
Residential and Land Development	236	163	45%
Construction	1,001	1,150	(13%)
Other	5	5	0%
Gross revenue	**5,294**	**5,075**	**4%**
less intercompany sales	(405)	(462)	(12%)
Group external revenue	**4,889**	**4,613**	**6%**

	Six months ended 31 December					
	Reported operating earnings			Operating earnings before significant items[1]		
NZ$m	2017	2016	Change	2017	2016	Change
Building Products	118	114	4%	118	129	(9%)
International	69	70	(1%)	69	70	(1%)
Distribution	89	84	6%	89	84	6%
Residential and Land Development	47	30	57%	47	30	57%
Construction	(619)	24	NM	(619)	24	NM
Corporate	(26)	(28)	(7%)	(26)	(27)	(4%)
Total	**(322)**	**294**	NM	**(322)**	**310**	NM
Funding costs	(63)	(52)	21%	(63)	(52)	21%
Earnings before tax	**(385)**	**242**	NM	**(385)**	**258**	NM
Tax benefit/(expense)	117	(61)	NM	117	(66)	NM
Earnings after tax	**(268)**	**181**	NM	**(268)**	**192**	NM
Non-controlling interests	(5)	(5)	0%	(5)	(5)	0%
Net earnings	**(273)**	**176**	NM	**(273)**	**187**	NM

[1] Operating earnings before significant items is a non-GAAP measure used by management to assess the performance of the business and has been derived from Fletcher Building Limited's interim financial statements for the period ended 31 December 2017.
[2] Details of significant items can be found in note 4 of the interim financial statements.

Financial Results
continued

Geographic segments	Six months ended 31 December					
	Gross revenue			External revenue		
NZ$m	2017	2016	Change	2017	2016	Change
New Zealand	3,093	3,015	3%	2,750	2,607	5%
Australia	1,587	1,419	12%	1,537	1,374	12%
Rest of World	614	641	(4%)	602	632	(5%)
Total	**5,294**	**5,075**	**4%**	**4,889**	**4,613**	**6%**

Geographic segments	Six months ended 31 December		
	Operating earnings before significant items[1]		
NZ$m	2017	2016	Change
New Zealand	(425)	205	NM
Australia	63	52	21%
Rest of World	40	53	(25%)
Total	**(322)**	**310**	**NM**

Geographic segments in local currency	Six months ended 31 December					
	Gross Revenue			External revenue		
	2017	2016	Change	2017	2016	Change
Australia (A$m)	1,459	1,352	8%	1,413	1,309	8%
Rest of World (US$m)	440	457	(4%)	431	450	(4%)

Geographic segments in local currency	Six months ended 31 December		
	Operating earnings before significant items[1]		
	2017	2016	Change
Australia (A$m)	58	50	16%
Rest of World (US$m)	29	38	(24%)

[1] Operating earnings before significant items is a non-GAAP measure used by management to assess the performance of the business and has been derived from Fletcher Building Limited's interim financial statements for the period ended 31 December 2017.
[2] Details of significant items can be found in note 4 of the interim financial statements.

Financial Results
continued

- External revenue of $4,889 million was $276 million or 6% higher than the prior corresponding period. New Zealand revenue increased by $143 million or 5%, and Australian revenue increased by $163 million or 12%. In local currencies, revenue increased by 5% in New Zealand, increased by 8% in Australia and decreased by 4% in the Rest of World.
- In New Zealand, earnings were significantly impacted by the performance of the B+I business. In addition the other Construction NZ businesses reported lower earnings, principally due to timing of earnings on major projects. Excluding Construction NZ, earnings were in line with the prior corresponding period. The Residential and Land Development division showed strong growth, while increased revenue for the Building Products division was offset by cost pressures.
- In Australia, market conditions were mixed, with robust activity in Eastern states offset by continued challenging trading conditions in Western Australia. Several Australian businesses were impacted by increased energy costs, particularly Laminex and Fletcher Insulation, with the latter also recording a $5m one-off restructuring charge. Despite this, Australian operating earnings before significant items increased 16% in local currency. This was driven by improvements in Iplex Australia, Stramit, and Tradelink, as well as a contribution of $13 million from the Land Development business in Australia.
- In the Rest of World, earnings in local currency were mixed, with a strong performance from Formica driven by a 9% increase in revenue in local currencies. This was offset by earnings decreases in the Roof Tile Group and Construction South Pacific, due to a roll-off of major projects in Fletcher Construction South Pacific.
- Funding costs of $63 million were 21% higher than the prior corresponding period, reflecting both increased borrowings and that the prior year expense included a $5 million credit due to the impact of derivatives valuations.
- The tax benefit of $117 million reflects the loss for the period, with the B+I loss provisions expected to be deductible in future periods.
- Earnings per share were (39.2) cents compared with 25.4 cents per share in the prior corresponding period.
- A cash inflow from operations of $110 million compared with an outflow of $67 million in the prior corresponding period.

Segmental Operational Review

The following sections provide commentary on individual division results for the period ended 31 December 2017.

Building Products

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

	Six months ended 31 December			
NZ$m	**2017**	**2016**	**Change**	**Change %**
Gross revenue	1,250	1,108	142	13%
External revenue	1,000	859	141	16%
Operating earnings before significant items[1]	118	129	(11)	(9)%
Significant items[2]	-	(15)	15	NM
Operating earnings	118	114	4	4%
Funds	1,713	1,686	27	2%

	Six months ended 31 December		
	Operating earnings before significant items[1]		
NZ$m	**2017**	**2016**	**Change**
Concrete Pipes & Products	18	26	(31)%
Cement & Aggregates	34	38	(11)%
Building Materials	46	53	(13)%
Plastic Pipes	11	7	57%
JV Earnings & other	9	5	80%
Total	118	129	(9)%

[1] Operating earnings before significant items is a non-GAAP measure used by management to assess the performance of the business and has been derived from Fletcher Building Limited's interim financial statements for the period ended 31 December 2017.
[2] Details of significant items can be found in note 4 of the interim financial statements.

The Building Products division reported gross revenue of $1,250 million compared with $1,108 million in the prior corresponding period. The 13% increase in revenue has resulted from improved sales volumes and price increases in the majority of business units, and especially Firth and Iplex Australia.

The division's operating earnings before significant items were $118 million, compared with $129 million in the prior corresponding period, a reduction of 9%. This reflects some contraction in gross margin as well as one-off redundancy costs of $5 million in Fletcher Insulation and a fire event at one of the Humes sites which reduced operating earnings by a further $3 million.

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

- Increased energy costs of approximately $6 million, particularly impacting GBC Winstone, Fletcher Insulation and the Iplex businesses in both Australia and New Zealand;
- Adverse product mix change, particularly impacting GBC Winstone, Humes, and Iplex New Zealand;
- Transitional costs associated with commissioning of new plants in the Fletcher Insulation and Firth masonry businesses;
- Additional costs incurred in various businesses to alleviate capacity constraints and support current and expected increased volumes. This includes transitional costs associated with developing new quarry deposits and additional warehousing to meet increased current and expected future volumes of plasterboard.

Operating earnings for Concrete Pipes & Products were $18 million compared to $26 million in the prior corresponding period, a reduction of 31%. Ready-mix concrete sales volumes increased by 4% but masonry sales volumes reduced by 8%, partially driven by production challenges of commissioning and transition to a new lower cost plant which is now complete. Concrete pipe volumes were higher in both Australia and New

Zealand. Costs resulting from a fire in one of the major Humes branches in Auckland contributed to the reduced earnings by $3 million.

The Cement & Aggregates businesses reported a reduction in operating earnings of 11% to $34 million. Domestic cement sales volumes increased 5% while aggregates volumes increased by 12% compared to the prior corresponding period. The reduced earnings were primarily attributable to higher energy costs, increased operating costs associated with opening up new quarry resources, and an unfavourable mix of regional quarry sales.

Building Materials operating earnings were $46 million, a decrease of 13% versus the prior corresponding period. Overall plasterboard volumes were consistent with the prior corresponding period, with performance board volumes demonstrating a modest increase. Costs increased in the period due to one-off raw material supply issues coupled with increased supply chain costs, as expanded warehousing facilities have been implemented.

Australian glasswool sales volumes increased by 7% from the prior corresponding period contributing to revenue growth of 4%. Notwithstanding the increased revenue, the market remains highly competitive, placing pressure on profit margins. Increased costs from redundancy payments and other transitional costs as the Sydney and Melbourne plants implement automation projects have reduced operating earnings to date but will result in lower costs in future periods. Excluding redundancy payments, the Australian operating earnings were in line with the prior corresponding period.

The Plastic Pipes businesses reported $11 million operating earnings, a $4 million improvement on the prior corresponding period. Volumes in both Australia and New Zealand increased compared with the prior corresponding period. Substantial energy cost increases in Australia and New Zealand subdued what would have otherwise been an even higher year on year improvement in earnings.

Segmental Operational Review
continued

International

Laminex; Formica; Roof Tile Group

	Six months ended 31 December			
NZ$m	**2017**	**2016**	**Change**	**Change %**
Gross revenue	1,045	1,005	40	4%
External revenue	1,034	997	37	4%
Operating earnings	69	70	(1)	(1)%
Funds	2,055	1,948	107	5%

	Six months ended 31 December		
	Operating earnings		
NZ$m	**2017**	**2016**	**Change**
Laminex	43	45	(4)%
Formica	42	34	24%
Roof Tile Group	(4)	2	NM
International divisional costs	(12)	(11)	9%
Total	69	70	(1)%

Operating earnings for the International division were $69 million, down 1% from $70 million in the prior corresponding period. Gross revenue was up by 4%, due principally to strong performances in the Formica businesses.

Laminex operating earnings were $43 million, down by 4% from $45 million in the prior corresponding period. Gross revenue in domestic currencies were largely flat across both New Zealand and Australia when compared to the prior corresponding period. In Australia, gross revenue varied by state with the subdued residential market in Western Australia leading to reduced demand compared to the prior corresponding period, while trading conditions in the Eastern states remained supportive. In Australia, margins were down on last year mainly as the result of a shift in product mix to some lower margin categories and increases in input costs – especially energy – that could not be fully passed on. The business is a large user of electricity in its Gympie medium density fibreboard and Dardanup particle board factories with total energy costs increasing by 36% over the prior corresponding period.

Competitive pressures both locally and from overseas remained strong although the business in both Australia and New Zealand grew market share in key product categories while continuing its programme of operational efficiencies and new product initiatives, such as the introduction of new anti-finger print laminate.

Operating earnings for Formica were $42 million, up by 24% from $34 million in the prior corresponding period. Gross revenue was up by 8%, while in domestic currencies it was up by 9% on the prior corresponding period.

In North America, gross revenue in domestic currencies was up by 3% while operating earnings in domestic currencies were up by 14% driven by higher margins from improved product mix, successful introduction of new products including anti-finger print laminate, continued improvements in operational performance at both manufacturing sites, and recovery of the Mexican currency relative to the US dollar.

In Asia, gross revenue in domestic currencies was up by 11% driven by continued improvement in activity levels in the major markets. Performance in China remained strong with revenue up by 36% on the prior corresponding period driven by strong project growth and market share gains. Thailand and Taiwan were up by 5% and 1% respectively while Malaysia, Hong Kong, and Singapore were down by 18%, 5% and 2% respectively. Operating earnings in Asia were up by 28% on the prior corresponding period, due to both overall sales growth across the region coupled with continuing improvements in the operating facilities, especially the high-pressure laminate factory in Jiu Jiang, China, which is now operating at consistently improved efficiencies and utilisation rates.

In Europe, gross revenue in domestic currencies was up by 4% compared to the prior corresponding period driven by improvements in the UK, Spain and Germany. The operating result was in line with the prior corresponding period. Operational performance continued to improve, especially at the North Shields factory, although this was offset by an adverse shift in product mix with higher sales of lower margin thick laminate, and increased costs from investments in the commercial and sales operation to support the improvements in market share.

Roof Tile Group operating earnings were a loss of $4 million, a decrease of $6 million from the prior corresponding period. Gross revenue was down 17% on the prior corresponding period. This was the result of continued declines in Africa sales volume, down by 16%, while Japan revenue was down by 46% due to a key customer moving to a dual supply situation and the end of a special sales program for solar product. New Zealand revenue was down by 4%, while bad weather in a number of US states such as Florida and Texas were the key drivers for revenue being down by 11% on the prior corresponding period. Performances in other key global markets including Europe and Asia were up by 7% on the prior corresponding period.

Segmental Operational Review
continued

Distribution

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

	Six months ended 31 December			
NZ$m	**2017**	**2016**	**Change**	**Change %**
Gross revenue	1,757	1,644	113	7%
External revenue	1,665	1,559	106	7%
Operating earnings	89	84	5	6%
Funds	983	1,039	(56)	(5)%

	Six months ended 31 December		
	Operating earnings		
NZ$m	**2017**	**2016**	**Change**
NZ Building Supplies	49	47	4%
NZ Steel Distribution	23	25	(8)%
Australian Building Supplies	4	2	100%
Australian Steel Distribution	13	10	30%
Total	89	84	6%

The Distribution division's operating earnings for the period were $89 million, an increase of $5 million or 6% on the prior corresponding period.

Following the record performance in FY17, the New Zealand Building Supplies businesses continued momentum despite an unseasonably wet spring, adversely impacting demand in the first quarter. The New Zealand Building Supplies businesses grew both gross revenue and earnings by 4% on the prior corresponding period with growth across all regions of New Zealand except Christchurch, which continues to re-establish normal trading following the significant earthquake rebuild period. PlaceMakers delivered strong performance in core product categories, whilst increasing penetration in some higher-margin categories and continuing to develop its installed solution offer. Mico delivered above market growth with targeted improvements in back of wall categories and continued momentum in front of wall offerings following strong performance in the prior year. Mico opened a new branch in Gore during the period and will open another branch in Auckland early in the second half of the year.

The New Zealand Steel Distribution businesses grew gross revenue by $28 million or 12% in the period with good momentum in roofing and share gains in EasySteel. The roofing performance was bolstered by the April 2017 acquisition of the Calder Stewart Roofing business. Fletcher Reinforcing had strong volumes throughout the period, however, underlying earnings were negatively impacted by the effects of steel price rises and higher operating costs during a transition to a new facility in Auckland.

The Australian Building Supplies business generated operating earnings of $4m, buoyed by new branch expansion, targeted buying efficiencies, and controlled operating costs.

Tradelink delivered gross revenue of $381 million in local currency, which was an increase of 6% on the prior corresponding period, driven by the branch expansion program and a strategic focus on winning back share in the small to medium and network customer market segments. Following the 20 new branches opened in FY17, Tradelink plans to open another 17 branches in FY18, with new stores moving to profitability in approximately 4-6 months.

The Australian Steel Distribution business grew gross revenue by $14 million to $262 million in the period and delivered strong earnings growth of 30% to $13 million. The performance reflects the benefit of Stramit's strong customer value proposition, particularly consistently high service levels. The business also commenced a site consolidation programme for two large manufacturing sites into a new purpose-built facility. This programme of work will be completed in the balance of FY18 and will deliver further efficiency gains for the business.

Segmental Operational Review continued

Residential and Land Development

NZ Residential; Land Development

NZ$m	2017	2016	Change	Change %
	Six months ended 31 December			
Gross revenue	236	163	73	45%
External revenue	236	163	73	45%
Operating earnings	47	30	17	57%
Funds	562	477	85	18%

NZ$m	2017	2016	Change
	Six months ended 31 December		
	Operating earnings		
NZ Residential	30	25	20%
Land Development	17	5	NM
Total	47	30	57%

The Residential and Land Development division reported operating earnings of $47 million, a 57% increase on the prior corresponding period.

Gross revenue for the half year was $236 million, up from $163 million in the prior corresponding period.

NZ Residential operating earnings were $30 million, 20% higher than the prior corresponding period. There was an increase in the volumes of units sold to 342 from 188 in the prior period. This reflected an increase in the number of units available to sell as land purchased in prior years in new locations became available to start home building. In particular, the subdivisions of Swanson, Whenuapai and Red Beach are now operating at a sustainable level.

The half year result includes a $12 million provision for a forecast loss on the Atlas Quarter Apartment project in Christchurch. This reflects a combination of lower than expected selling prices and cost escalations on the project, mainly due to seismic requirements and higher than expected construction market rates. Excluding the impact of this provision, NZ Residential earnings were up $17 million, or 68%, on the prior period.

Average margins in Auckland remained strong during the period, however, there was softening of demand in some locations as the market returns to more normal conditions. In particular, there was an increase in the number of transactions requiring the sale of the customer's current home as bridging finance becomes harder to obtain. The average settlement period lengthened slightly to 36 days.

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

At 31 December, the NZ Residential business held a total of 3,660 lots on balance sheet. In addition, the business holds a further 1,150 units under unconditional agreements, to be delivered over the next five years.

Land Development operating earnings in the period were $17 million. This business develops and sells mainly commercial sites within the Group's property portfolio which are surplus to operating requirements. First half earnings comprised the sale of two development locations in Australia, and one in New Zealand.

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

Funds employed in the division increased to $562 million from $541 million at 30 June 17, reflecting an increase in work in progress in both the NZ Residential and Land Development businesses.

Segmental Operational Review
continued

Construction

Construction New Zealand; Construction South Pacific

NZ$m	2017	2016	Change	Change %
	Six months ended 31 December			
Gross revenue	1,001	1,150	(149)	(13)%
External revenue	954	1,035	(81)	(8)%
Operating earnings	(619)	24	(643)	NM
Funds	(330)	366	(696)	NM

	Six months ended 31 December		
	Operating earnings		
NZ$m	2017	2016	Change
Construction New Zealand	(629)	1	NM
Construction South Pacific	10	23	NM
Total	(619)	24	NM

The Construction Division reported an operating earnings loss of $619 million compared with a profit of $24 million in the prior corresponding period. This included a loss for the period in B+I of $631 million versus a loss of $47 million in the prior corresponding period. The result reflects additional loss provisions recorded on a number of key projects. Operating earnings excluding B+I were $12 million compared to $71 million in the prior corresponding period.

The division recorded gross revenues of $1,001 million. At 31 December 2017, the backlog of work for the division, being the value of contracted work awarded but not completed, was $2.3 billion compared with $2.7 billion at 31 December 2016.

Given the scale of the challenges in B+I, this business unit's sole focus will be on project completion. This means the B+I business will not be bidding for any further vertical construction work in New Zealand, allowing key resources to be redeployed to project completion. In the longer term, as B+I projects progressively complete, key resources will be redeployed into other businesses within the Division.

Earnings in the Infrastructure business were impacted by the completion of major infrastructure projects in the prior period, notably the Waterview Project in Auckland and the Mackays to Peka Peka Expressway north of Wellington.

The Higgins business continues to perform strongly, operating very successfully under a formula that allows the business to respond quickly to meet both national and regional clients' needs through a strong regional network with national support. Performance has been enhanced by the ongoing participation of both Higgins and the Infrastructure businesses in the North Canterbury Transport Infrastructure Recovery (NCTIR) Alliance in response to the Kaikoura Earthquakes.

The Construction South Pacific business (which includes Higgins Fiji) reported earnings of $10 million compared to $23 million for the same period last year. The reduction reflects the timing of completion of projects by the Fletcher Construction South Pacific business, with a number of major projects in Fiji and Papua New Guinea completed in the prior corresponding period.

Financial Review

Group Cash Flow

NZ$m	2017	2016	Change
	Six months ended 31 December		
Operating earnings before significant items[1]	**(322)**	**310**	**(632)**
Depreciation and amortisation	110	102	8
Provisions, significant items and other	(17)	(43)	26
Trading cash flow before working capital movements	**(229)**	**369**	**(598)**
Land and developments	(28)	(164)	136
Contracts	502	(99)	601
Other working capital movements	(43)	(50)	7
Trading cash flow	**202**	**56**	**146**
Less: cash tax paid	(30)	(69)	39
Less: interest paid	(62)	(54)	(8)
Cash flows from operating activities	**110**	**(67)**	**177**
Trading cash flow (excluding B+I)	**335**	**152**	**183**

[1] Operating earnings before significant items is a non-GAAP measure used by management to assess the performance of the business and has been derived from Fletcher Building Limited's interim financial statements for the period ended 31 December 2017. Details of significant items can be found in note 4 of the interim financial statements.

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

Cash flows from operating activities of $110 million were $177 million higher than the prior corresponding period. Trading cash-flows after working capital movements were $202 million, up from $56 million in the prior corresponding period. Excluding B+I, trading cash-flows were $335 million, up from $152 million in the prior corresponding period.

Working capital inflows of $431 million were higher than the prior corresponding period due to the positive balance for Contracts, largely reflecting the losses recognised but not yet incurred as cash in the Construction division. Excluding Contracts, working capital outflows were significantly lower than the prior period, reflecting principally the lower net land and developments investment of $28 million, which was down from $164 million in the prior corresponding period. In addition there was a lower net working capital investment in the Building Products, International and Distribution divisions as these divisions placed an increased focus particularly on receivables and inventory management.

Capital expenditure was $131 million, compared with $127 million in the prior corresponding period. Of this total, $88 million was for stay-in-business capital projects and $43 million related to new growth initiatives.

For the financial year, capital expenditure is expected to be in the range of $275 million to $325 million and depreciation is expected to be at the lower end of the range of $225 million to $245 million.

Funding

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

Prior to these breaches, the Group had total available funding facilities of $3.1 billion and total net debt of $2.1bn, resulting in funding headroom of approximately $1.0 billion.

Based on the projected timing of the cash impact of the B+I losses, and the trading of the remainder of Fletcher Building's businesses, the Group expects total net debt to peak at between $2.3 billion and $2.4 billion in calendar 2018.

The Group is currently in discussion with its lenders to remedy the covenant breach. To date, the Group has received a waiver of the breach at 31 December 2017 from its syndicate lenders, and their commitment to provide the Group with access to continued funding under the existing Facility Agreement.

The Group is working with its syndicate and USPP lenders to agree new covenant terms, targeting completion by the end of March 2018.

Outlook

In New Zealand, activity levels in the residential, commercial and infrastructure building sectors continue to operate at or near cyclical peaks, and remain supportive of volumes for Fletcher Building's Distribution and Building Products' businesses. Rates of growth have slowed in the past six months as the industry encounters supply-side constraints, and overall growth is expected to be broadly flat through the remainder of FY18. House sales prices and volumes have softened from the highs of FY17, though demand levels are expected to remain robust in mid-price categories in Auckland where Fletcher Living is focused.

In Australia, activity in the standalone residential sector has held up well to date, though is expected to remain broadly flat in the second half of FY18 and into FY19. There continues to be a pipeline of large infrastructure projects on the Eastern Seaboard which is providing opportunities for Fletcher Building's concrete and plastic pipe businesses. Australian earnings in total are likely to be driven principally by performance improvements.

Specific divisional commentary in respect of 2018 full year earnings is provided as follows:

• Building Products:

- Continued revenue growth across New Zealand due to sustained demand for residential and infrastructure focused building products, limited by supply-side industry constraints;
- Increase in Australian based earnings due to operational improvement in Iplex Australia;
- Margin pressure from increased input costs (energy, resin), investment in supply chain and restructuring costs.

• International:

- Steady revenue and earnings growth in Formica's North American and Asian businesses based on exposure to a robust US commercial sector, strong activity levels in China, and continued operational improvements;
- Pressure on Laminex NZ and Australia margins due to higher input costs and shift in product mix;

• Distribution:

- Continued growth in New Zealand based revenues given maintained levels of activity in residential and commercial building sectors;
- Modest growth in New Zealand distribution earnings is expected due to improvement in PlaceMakers and Mico;
- In Australia, the earnings of Tasman Sinkware and Tradelink are expected to improve compared to FY17.

• Residential and Land Development:

- Residential earnings for FY18 are expected to be similar to the prior year;
- Strength in Auckland standalone housing margins will contrast weaker margins of section sales and Christchurch volumes;
- Land Development earnings are expected to be lower than in FY17 due to fewer projects coming to market in the second half of the year and risk around regulatory approvals for planned sales.

• Construction:

- In line with the February 14 announcement B+I is expected to report an EBIT loss of $660m for FY18;
- Higgins' robust backlog of work and maintenance contracts is likely to produce earnings similar to last year;
- Infrastructure and South Pacific earnings will be down year on year due to the rolling off of large, profitable contracts in FY17 and a lag in new projects ramping up.

Divisions

Division	Business Groupings	Key Businesses
Building Products	Concrete Pipes & Products	Firth Concrete (NZ) CSP Pacific (NZ) Humes Pipelines (NZ) Rocla Products (AU)
	Cement & Aggregates	GBC Winstone (NZ)
	Building Materials	Winstone Wallboards (NZ) Tasman Insulation (NZ) Fletcher Insulation (AU)
	Plastic Pipes	Iplex (NZ & Australia)
	JV Earnings and other	Joint ventures & other
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
	Construction South Pacific	Fletcher Construction South Pacific Higgins Fiji

Appendix: Supplemental split of Divisional results

Gross revenue

Building Products — Six months ended 31 December

Gross revenue (NZ$m)	2017	2016	Change
Concrete Pipes & Products	454	394	15%
Cement and Aggregates	212	202	5%
Building Materials	255	245	4%
Plastic Pipes	278	241	15%
Joint Ventures & Other	51	26	96%
Total	1,250	1,108	13%

International — Six months ended 31 December

Gross revenue (NZ$m)	2017	2016	Change
Laminex	487	469	4%
Formica	487	450	8%
Roof Tile Group	71	86	(17%)
Total	**1,045**	**1,005**	**4%**

Distribution — Six months ended 31 December

Gross revenue (NZ$m)	2017	2016	Change
NZ Building Supplies	797	765	4%
Australian Building Supplies	431	392	10%
NZ Steel Distribution	267	239	12%
Australian Steel Distribution	262	248	6%
Total	**1,757**	**1,644**	**7%**

Residential and Land Development — Six months ended 31 December

Gross revenue (NZ$m)	2017	2016	Change
NZ Residential	192	156	23%
Land Development	44	7	NM
Total	**236**	**163**	**45%**

Construction — Six months ended 31 December

Gross revenue (NZ$m)	2017	2016	Change
Construction New Zealand	930	1,033	(10%)
Construction South Pacific	71	117	(39%)
Total	**1,001**	**1,150**	**(13%)**

Appendix:
Supplemental split of Divisional results

Local currency gross revenue

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

Building Products	Six months ended 31 December		
Gross revenue	**2017**	**2016**	**Change**
New Zealand (NZ$m)	808	722	12%
Australia (A$m)	406	368	10%

International	Six months ended 31 December		
Gross revenue	**2017**	**2016**	**Change**
New Zealand (NZ$m)	89	88	1%
Australia (A$m)	379	377	1%
Rest of World (US$m)	389	371	5%

Distribution	Six months ended 31 December		
Gross revenue	**2017**	**2016**	**Change**
New Zealand (NZ$m)	1,064	1,005	6%
Australia (A$m)	693	607	14%

Residential and Land Development	Six months ended 31 December		
Gross revenue	**2017**	**2016**	**Change**
New Zealand (NZ$m)	198	163	21%
Australia (A$m)	37		NM

Construction	Six months ended 31 December		
Gross revenue	**2017**	**2016**	**Change**
New Zealand (NZ$m)	930	1,033	(10%)
Rest of World (US$m)	51	83	(39%)

Appendix:
Supplemental split of Divisional results

External revenue

Building Products

External revenue (NZ$m)	2017	2016	Change
	Six months ended 31 December		
Concrete Pipes & Products	412	342	20%
Cement and Aggregates	113	109	4%
Building Materials	192	183	5%
Plastic Pipes	232	199	17%
Joint Ventures & Other	51	26	96%
Subtotal	1,000	859	16%

International

External revenue (NZ$m)	2017	2016	Change
	Six months ended 31 December		
Laminex	477	460	4%
Formica	487	452	8%
Roof Tile Group	70	85	(18%)
Total	**1,034**	**997**	**4%**

Distribution

External revenue (NZ$m)	2017	2016	Change
	Six months ended 31 December		
NZ Building Supplies	777	740	5%
Australian Building Supplies	427	391	9%
NZ Steel Distribution	204	185	10%
Australian Steel Distribution	257	243	6%
Total	**1,665**	**1,559**	**7%**

Residential and Land Development

External revenue (NZ$m)	2017	2016	Change
	Six months ended 31 December		
NZ Residential	192	156	23%
Land Development	44	7	NM
Total	**236**	**163**	**45%**

Construction

External revenue (NZ$m)	2017	2016	Change
	Six months ended 31 December		
Construction New Zealand	886	918	(3%)
Construction South Pacific	68	117	(42%)
Total	**954**	**1,035**	**(8%)**

Appendix:
Supplemental split of Divisional results

Local currency external revenue

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

Building Products	Six months ended 31 December		
External revenue	2017	2016	Change
New Zealand (NZ$m)	597	512	17%
Australia (A$m)	371	331	12%

International	Six months ended 31 December		
External revenue	2017	2016	Change
New Zealand (NZ$m)	87	88	(1%)
Australia (A$m)	379	377	1%
Rest of World (US$m)	383	366	5%

Distribution	Six months ended 31 December		
External revenue	2017	2016	Change
New Zealand (NZ$m)	982	926	6%
Australia (A$m)	627	601	4%
Other (US$m)	1		NM

Residential and Land Development	Six months ended 31 December		
External revenue	2017	2016	Change
New Zealand (NZ$m)	198	163	21%
Australia (A$m)	37		NM

Construction	Six months ended 31 December		
External revenue	2017	2016	Change
New Zealand (NZ$m)	886	918	(3%)
Rest of World (US$m)	49	83	(41%)

Appendix:
Supplemental split of Divisional results

Operating earnings before significant items

Building Products	Six months ended 31 December		
Operating earnings[1] (NZ$m)	**2017**	**2016**	**Change**
Concrete Pipes & Products	18	26	(31%)
Cement and Aggregates	34	38	(11%)
Building Materials	46	53	(13%)
Plastic Pipes	11	7	57%
Joint Ventures & Other	9	5	80%
Subtotal	118	129	(9%)

International	Six months ended 31 December		
Operating earnings (NZ$m)	**2017**	**2016**	**Change**
Laminex	43	45	(4%)
Formica	42	34	24%
Roof Tile Group	(4)	2	NM
International divisional costs	(12)	(11)	9%
Total	**69**	**70**	**(1%)**

Distribution	Six months ended 31 December		
Operating earnings (NZ$m)	**2017**	**2016**	**Change**
NZ Building Supplies	49	47	4%
Australian Building Supplies	4	2	100%
NZ Steel Distribution	23	25	(8%)
Australian Steel Distribution	13	10	30%
Total	**89**	**84**	**6%**

Residential and Land Development	Six months ended 31 December		
Operating earnings (NZ$m)	**2017**	**2016**	**Change**
NZ Residential	30	25	20%
Land Development	17	5	NM
Total	**47**	**30**	**57%**

Construction	Six months ended 31 December		
Operating earnings (NZ$m)	**2017**	**2016**	**Change**
Construction New Zealand	(629)	1	NM
Construction South Pacific	10	23	(57%)
Total	**(619)**	**24**	**NM**

[1] Operating earnings before significant items is a non-GAAP measure used by management to assess the performance of the business and has been derived from Fletcher Building Limited's interim financial statements for the period ended 31 December 2017. Details of significant items can be found in note 4 of the interim financial statements.

Appendix:
Supplemental split of Divisional results

Local currency results

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

Building Products	Six months ended 31 December		
Operating earnings	2017	2016	Change
New Zealand (NZ$m)	116	124	(6%)
Australia (A$m)	2	5	(60%)

International	Six months ended 31 December		
Operating earnings	2017	2016	Change
New Zealand (NZ$m)	8	8	NM
Australia (A$m)	29	33	(12%)
Rest of World (US$m)	21	19	11%

Distribution	Six months ended 31 December		
Operating earnings	2017	2016	Change
New Zealand (NZ$m)	72	72	NM
Australia (A$m)	16	11	45%

Residential and Land Development	Six months ended 31 December		
Operating earnings	2017	2016	Change
New Zealand (NZ$m)	34	30	13%
Australia (A$m)	12		NM

Construction	Six months ended 31 December		
Operating earnings	2017	2016	Change
New Zealand (NZ$m)	(629)	1	NM
Rest of World (US$m)	7	16	(56%)

[1] Operating earnings before significant items is a non-GAAP measure used by management to assess the performance of the business and has been derived from Fletcher Building Limited's interim financial statements for the period ended 31 December 2017. Details of significant items can be found in note 4 of the interim financial statements.