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Dear Shareholder,

Fletcher Building has made a series of market announcements in the last two weeks, regarding its HY18 results, Building + Interiors (B+I) business and changes to the Board. I would like to overview these announcements collectively now, to ensure all our shareholders are directly informed.

As you are aware, Fletcher Building is a diversified building company, comprising more than 30 businesses with operations that span the entire building supply chain. The majority of these businesses are performing well, and are benefiting from supportive market conditions.

2018 Half Year Results

In our HY18 results announcement on 21 February we maintained earnings guidance for the Fletcher Building group excluding B+I within the $680 million to $720 million range I announced at our Annual Shareholders' Meeting in October 2017.

Revenue for the first half was $4,889 million, up 6% versus the prior corresponding period, and excluding B+I, operating earnings were $309 million, down 13% versus the first half of FY17. There were two key drivers of this reduction:

(1) Firstly, we recorded lower profits in the Construction Division, outside B+I, as our Infrastructure and South Pacific businesses rolled off major projects from FY17, and are only in the early stages of new ones. As you may remember, in FY17 we were completing a series of key projects, including the Waterview Tunnel in Auckland and the Mackays to Peka Peka Expressway north of Wellington. So this is largely a matter of timing.

(2) The other factor was lower earnings in our Building Products Division, where gross margins were compressed as a result of increased input costs and costs associated with increasing supply chain capacity to meet demand. We have extended into new areas of our quarries ahead of planned timelines and invested in additional warehousing to meet current and expected volumes for plasterboard. While this has impacted margins in the short term we expect to see the benefits flow through in future periods.

Pleasingly we saw strong performances from our Distribution and Residential & Land Development Divisions – which grew earnings 6% and 57% respectively. In our International Division, Formica continued to perform well, with earnings up 24%.

Regrettably, while the broader business continues to perform to guidance, on 14 February we announced further provisions of $486 million for expected losses in B+I, leading to a total projected B+I EBIT loss of $660 million in FY18. Of this B+I loss, ($631 million) was recognised in the first half, resulting in an operating earnings loss for the Group of ($322) million in HY18.

As such, and in line with Fletcher Building's Dividend Policy, the Board determined that no HY18 dividend would be paid. We will reassess the payment of a final dividend at the conclusion of the 2018 financial year.

B+I provisioning

The new B+I provisioning was informed by a review of 16 of its projects, accounting for approximately 90% of the B+I backlog, and incorporating external input from independent construction experts and KPMG.

The review was instigated by Fletcher Building's new Chief Executive Officer, Ross Taylor, and benefited from his considerable construction experience. The provisions have allowed for significant time and cost contingencies, over and above those included in October. With B+I's projects further progressed since that time, the new provisions reflect significantly more advanced procurement of important trade packages, which have experienced material price increases.

The decision has also been made to refocus the B+I business solely on the delivery of its remaining projects, the last of which we are targeting to complete in the second half of calendar 2019. Bidding for all vertical construction projects in New Zealand has ceased.

This change will allow the business to redirect people and resources in B+I to the completion of the current book, while seeking to protect shareholder interests by exiting a market sector that is characterised by high contract risk and low margins.

The approach Management has taken to B+I provisioning, and the changes made to its ongoing operations, gives the Board confidence that the business will be able to complete its remaining projects within these provisions.

Board changes

I understand our shareholders' expectation that as Chairman I must take responsibility for the issues we have experienced in B+I.

In this context, on 14 February I announced that I will be stepping down as Chairman no later than the 2018 Annual Shareholders' Meeting, to allow an orderly transition and to complete the Board refresh I have commenced. Three new Directors and a new Chairman will be appointed in the coming months, and this process is well underway.

I remain committed to providing leadership continuity during this time, and will continue to support my fellow Directors and Management in setting a new strategic direction for the Company.

There is no denying it has been a tough 18 months for Fletcher Building. The Board and Management are deeply committed to completing the B+I projects within the provisions provided, and presenting a compelling new strategy to the market in June, which will ensure we invest behind our best growth opportunities and deliver value for our shareholders.

During this time I have been impressed by the determination and resilience of our people, the loyalty of our customers and suppliers, and the support of our shareholders.

I have every confidence Fletcher Building will emerge a stronger and even more determined business, and will enter FY19 with renewed focus and energy.

Regards,

Sir Ralph Norris
Chairman