Fletcher Building Limited
Interim Report 2019

Waikato Expressway – Hamilton's City Edge

Contents

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

Any references to documents and information included on external websites, including Fletcher Building's website, are provided for convenience alone and none of the documents or other information on those websites is incorporated by reference in this interim report.

An electronic copy of this interim report is available to view on our website www.fletcherbuilding.com

The performance of Fletcher Building in FY18 triggered a period of significant change for the Company. Under CEO Ross Taylor's leadership, Fletcher Building initiated a comprehensive strategy refresh that is being implemented over five years, and Board and governance changes have been undertaken to support that process.

Bruce Hassall CHAIRMAN

Dear Shareholders

The focus for FY19 is to stabilise and reset the business for the future and I am pleased to report that in the first half of FY19 good progress has been made toward this goal.

Overall, the strategy is designed to deliver long-term growth for shareholders through focusing Fletcher Building's operations in the New Zealand and Australian markets, with building products and distribution at its core. This focus led to the decision to sell Fletcher Building's non-core international businesses, Roof Tile Group (RTG) and Formica. Pleasingly these key steps are almost complete with the RTG divestment finalised during the period and an agreement to sell Formica signed.

Within the Construction division, work is on track to complete the remaining B+I projects within the provisions announced in February last year. A key part of the Company's strategy is to turnaround the Australia division and we are focused on resetting these businesses in light of challenging market conditions to set up for improved performance in FY20.

Interim financial results and dividend

The Company's interim results show a welcome return to profitability with operating earnings before significant items, or EBIT, of $285 million, compared to a loss of $322 million in the first half of FY18. Adjusting for the impact of the B+I provisions, current year earnings decreased by 8% when compared to $309 million in the prior period. This was ahead of the earnings guidance of a 10% decrease that we communicated at our Annual Shareholders' Meeting in November.

The return to profitability has facilitated the reinstatement of dividend payments, and the Board is pleased to declare an interim dividend of 8.0 cents per share to be paid on 10 April 2019.

The Board's decision to reinstate the dividend is based on our confidence that the strategy will achieve its objectives but at the same time we have taken into account the Company's ongoing capital requirements and the expected settlement timing of the Formica sale. Accordingly, the FY19 dividend will be weighted towards the final dividend to be announced in August 2019.

Governance and board composition

To support the new strategy, we have sought to achieve a Board composition that has the appropriate mix of skills, experience and diversity and this has led to five new directors being appointed. The new directors bring a range of commercial, operational and governance expertise and are well connected across business and government, important for a business the size and complexity of Fletcher Building.

All of the directors have been actively out in the business, and ensuring they spend time with management and the different divisions on a regular basis.

In addition, the Board has had an ongoing focus on governance across all elements of business operations. This has led to improvements in governance, new Board committee chairs have been put in place and the committees are working effectively.

Health and safety

Unfortunately we have had two fatalities across the Fletcher Building Group recently and on behalf of the Fletcher Building Board, I wish to express my deepest condolences to the families of the two men who passed away. These occurred against a backdrop of intense Board and management focus on health and safety and an improving safety performance across the group as a whole. As such this has been very disappointing for all of us and will reinforce our focus and efforts to ensure everyone who works with us at Fletcher Building gets home from work safely each day.

Conclusion

The first half of the financial year and the return to profitability reflects solid progress against the new Company strategy. The Board and I are confident Ross and his team remain on track to deliver against the key elements of the strategy we laid out last year.

On behalf of the Board, I look forward to the second half of the year as we set the business up for positive performance in FY20.

Bruce Hassall
Chairman

I am pleased with the progress we have made against Fletcher Building's five-year strategy during the first half of FY19 as we refocus and stabilise the business.

Ross Taylor CEO

In New Zealand, we are focused on growing our core building products and distribution businesses (Building Products, Distribution, Steel, and Concrete). Despite the market environment for each of these divisions continuing to be highly competitive, we were able to maintain our strong revenue position. The Construction division returned to profitability, displaying good progress on its turnaround and we continue to remain within the provisions set for B+I project completions in February 2018.

In Australia, a sharp downturn in the residential market as well as sustained high input costs have impacted the division's performance. We are undertaking a reset of the division through FY19 to adjust to prevailing market conditions and ensure a good base for stronger trading performance in FY20.

The sale of Roof Tile Group (RTG) was completed during the period, and it was pleasing to have reached an agreement in December 2018 to sell Formica for US$840 million. The sale is expected to be completed by the end of the financial year, driven by regulatory approvals. These are tracking to plan, with six of nine received so far.

Health and safety

Tragically two fatalities have occurred in our operations since November, one an electrical contractor and the other a member of our staff. Through this very hard period our sympathies and support have been provided to their colleagues, friends and families.

These fatalities were especially disappointing for us as they occurred against strongly improving safety performance across the Group as a whole.

We have ensured that we understand the causes and have learnt from what happened, and reinforced to everyone who works with us at Fletcher Building our focused efforts to ensure everyone returns home safely each day.

HY19 Performance

Group revenue declined 3% to $4.8 billion during the six months to 31 December 2018. This was anticipated and resulted from reducing Construction revenue as we progressively complete the remaining B+I projects.

Group operating earnings before significant items (EBIT) were $285 million, compared to a loss of $322 million in the first half of FY18. Adjusting for the impact of B+I, EBIT was 8% lower for HY19.

The Group recorded significant items of $68 million in the period. These items related mainly to the recognition of a loss on sale of RTG of $18 million and the recognition of an impairment charge to goodwill of $37 million based on the expected Formica sale proceeds. As a result, net earnings were $89 million, compared with a loss of $273 million in the comparable period.

In New Zealand, the Distribution, Steel, and Building Products divisions held revenue in line with the prior year. In Steel and Building Products, earnings came under pressure largely due to continued increases in input costs, primarily steel, energy, resins and transport. In the Concrete division, a breakdown in a cement mill at Golden Bay Cement's Portland facility in September led to a net $6.7 million impact to EBIT. When adjusting for the impact of the outage, EBIT was 6% higher than the prior half year.

Our Residential division reported a strong revenue increase of 6%, as house sale volumes remained high. A change in accounting policy during the period led to lower earnings for the period, however, on a comparable basis, earnings grew by 1%. Earnings from the Land Development business were lower during the period as land sales reset closer to the long term average of $25 million per year.

In Construction, gross revenue of $866 million decreased from the prior period as the remaining B+I projects are completed, which was also reflected in a reduction in the division's backlog to $1.6 billion ($2.3 billion at 31 December 2017). Higgins continued to perform well, and, while the balance of the Construction businesses improved half on half, their profitability was pulled back by lower bid win rates. This was a direct result of getting our teams used to working within our tightened bid disciplines and risk regimes. Our expectation is that win rates will start to improve into the future, as we are now mostly through this reset.

While revenue held up in the Australia division over the comparable period, the downturn in the residential market and continued high input costs resulted in operating earnings of $33 million, down 38% on the prior period. Through the coming months we will materially reset this business to ensure its footprint, cost base and strategies are set up for this new market reality. It is important we move now to properly position our Australian businesses to grow into FY20 and beyond.

Group EBIT (excluding significant items and assuming a full year of Formica earnings) in FY19 is expected to be in the range of $650 million to $700 million. This compares to earnings guidance provided at the Annual Shareholders' Meeting of $630 million to $680 million. The $20 million increase in earnings guidance is due to the treatment of the Formica business as 'held for sale' and hence the assets are not subject to depreciation in the second half of FY19.

Conclusion

I am pleased to be able to deliver a profit for Fletcher Building this half, which has allowed a return to dividend payments, and I am confident that we are on track to deliver against the Company's strategy as we focus on growing our core New Zealand and Australian businesses.

Ross Taylor
CEO

Group Performance

Six months ended 31 December	2018 NZ$m	2017 NZ$m	Change %
Total revenue	**4,754**	**4,889**	**(3%)**
Operating earnings before significant items[1]	**285**	**(322)**	**NM**
Significant items[1]	(68)	0	NM
Operating earnings (EBIT)	**217**	**(322)**	**NM**
Funding costs	(62)	(63)	(2%)
Earnings/(loss) before tax	**155**	**(385)**	**NM**
Tax benefit/(expense)	(61)	117	NM
Earnings/(loss) after tax	**94**	**(268)**	**NM**
Non-controlling interests	(5)	(5)	0%
Net earnings/(loss)	**89**	**(273)**	**NM**
Net earnings/(loss) before significant items	**160**	**(273)**	**NM**
Basic earnings per share (cents)	10.4	(39.2)	NM
Dividends declared per share (cents)	8.0	0.0	NM
Cash flows from operating activities	(114)	110	NM
Capital expenditure	139	131	6%

Operating earnings before significant items[1]	**285**	**(322)**	**NM**
B+I	0	(631)	(100%)
Operating earnings (excluding B+I) before significant items[1]	**285**	**309**	**(8%)**
Basic earnings per share (excluding B+I) before significant items	**18.8**	**26.0**	**(28%)**

Revenue

Six months ended 31 December	2018 NZ$m	2017 NZ$m	Change %
Building Products	389	405	(4%)
Distribution	809	797	2%
Steel	283	267	6%
Concrete	404	427	(5%)
Residential and Development	251	236	6%
Construction	866	1,001	(13%)
Australia	1,557	1,547	1%
Formica and Roof Tile Group	581	558	4%
Divested businesses[2]		51	(100%)
Other	6	5	20%
Gross revenue	**5,146**	**5,294**	**(3%)**
Less: intercompany sales	(392)	(405)	(3%)
Group external revenue	**4,754**	**4,889**	**(3%)**

Building Products
EBIT 2018
$66m
2017 $73m ▼ 10%

Distribution
EBIT 2018
$50m
2017 $49m ▲ 2%

Steel
EBIT 2018
$21m
2017 $23m ▼ 9%

Concrete
EBIT 2018
$42m
2017 $46m ▼ 9%

Residential and Development
EBIT 2018
$43m
2017 $47m ▼ 9%

Construction
EBIT 2018
$15m
2017+ $12m ▲ 25%

Australia
EBIT 2018
$33m
2017 $53m ▼ 38%

Formica and Roof Tile Group
EBIT* 2018
$37m
2017 $26m ▲ 42%

* EBIT before significant items.
+ EBIT (excluding B+I) before significant items.

	Reported operating earnings			Operating earnings before significant items and B+I[1]		
Six months ended 31 December	2018 NZ$m	2017 NZ$m	Change %	2018 NZ$m	2017 NZ$m	Change %
Building Products	66	73	(10%)	66	73	(10%)
Distribution	50	49	2%	50	49	2%
Steel	21	23	(9%)	21	23	(9%)
Concrete	42	46	(9%)	42	46	(9%)
Residential and Development	43	47	(9%)	43	47	(9%)
Construction	15	(619)	NM	15	12	25%
Australia	33	53	(38%)	33	53	(38%)
Corporate	(22)	(26)	(15%)	(22)	(26)	15%
Continuing operations	**248**	**(354)**	**NM**	**248**	**277**	**(10%)**
Formica and Roof Tile Group	(31)	26	NM	37	26	42%
Divested businesses[2]		6	(100%)		6	(100%)
Total	**217**	**(322)**	**NM**	**285**	**309**	**(8%)**
Funding costs	(62)	(63)	2%	(62)	(63)	2%
Earnings/(loss) before tax	**155**	**(385)**	**NM**	**223**	**246**	**(9%)**
Tax (expense)/benefit	(61)	117	NM	(58)	(60)	(3%)
Earnings/(loss) after tax	**94**	**(268)**	**NM**	**165**	**186**	**(11%)**
Non-controlling interests	(5)	(5)	0%	(5)	(5)	0%
Net earnings/(loss)	**89**	**(273)**	**NM**	**160**	**181**	**(12%)**

1 Operating earnings before significant items and B+I is a non-GAAP measure used by management to assess the performance of the business and has been derived from Fletcher Building Limited's interim financial statements for the period ended 31 December 2018. Details of significant items can be found in note 4 of the interim financial statements.

2 Divested businesses include the Group's previous interests in Sims Pacific Metals and Dongwha New Zealand Limited.

External revenue of $4,754 million was $135 million or 3% lower than the prior corresponding period. Operating earnings before significant items were $285 million, compared to a loss of $322 million in the prior corresponding period which was impacted by B+I provisioning. Net earnings were $89 million compared to a loss of $273 million in the prior corresponding period.

In New Zealand, gross revenue (excluding B+I) grew 1% while operating earnings (excluding B+I) declined 5% compared to the prior corresponding period. Market activity levels were generally steady compared to the prior period, with the commercial sector remaining highly competitive and the residential sector showing variations in activity by region (growth in Auckland offset by contraction in regions including Waikato, Bay of Plenty, and Canterbury).

- The distribution and materials divisions (Building Products, Distribution, Steel, and Concrete) recorded revenue in line with the prior period, while operating earnings declined by 6% or $12 million. Approximately half of this earnings decline ($6.7 million) resulted from a breakdown of a cement mill at Golden Bay Cement's Portland facility. Additionally, margin compression in some Building Products and Steel businesses was caused by rising input costs (e.g. energy, steel) which could not be fully recovered in price due to specific competitive dynamics. Margins in the Distribution and Concrete divisions were flat or slightly higher than the prior period.
- The Residential business grew both house sale volumes and revenue compared to the prior period, despite sale volumes being restricted in some locations by a build program weighted more to the second half of FY19. Margins remained stable for comparable housing typologies, however a relatively high proportion of units were sold in Christchurch resulting in a lower overall margin mix. Earnings from the Land Development business are lumpy in nature, and were $11 million lower than the prior period.
- The Construction division recorded revenue 13% below the prior period as it continued to close-out the B+I projects, which was also reflected in a reduction in the division's backlog to $1.6 billion ($2.3 billion at 31 December 2017). There was no change to the B+I provisions booked in February 2018. Operating earnings for the division excluding B+I increased slightly, with Higgins continuing to perform well in its third year of ownership by the Group, while Infrastructure, Brian Perry Civil, and South Pacific in aggregate made a small loss in the period as new bidding disciplines limited new work won and the current project workload was insufficient to fully recover overheads.

In Australia, gross revenue grew 1% while operating earnings declined by $20 million or 38% compared to the prior period. Performance was impacted by a combination of: a sharp decline in the residential market, which resulted in lower volumes and heightened competitive intensity in businesses exposed to that sector (especially Laminex, Stramit and Tradelink); and gross margin compression in all businesses, as increased input costs (e.g. resin, fuel, steel) could not be recovered in price in this environment. Increased input costs were in part due to a depreciation of the Australian currency ($10 million earnings impact compared to the prior period). Revenue in the pipelines businesses increased as the civil infrastructure market experienced continued growth, however input cost pressure meant these gains did not flow through to earnings. Earnings pressure in Australia was offset to a degree by overhead cost savings, with further work underway to ensure the division has a sustainable future cost base.

In the Rest of World, Formica experienced good revenue and earnings growth, notably in North America and Asia, with NZD earnings also supported by favourable foreign exchange rates. The divestment of the Roof Tile Group was completed during the period, and an agreement signed to divest the Formica Group, which is expected to be completed toward the end of FY19.

The significant items charge of $68 million for the period relates primarily to the divestment of the Roof Tile Group and the Formica business. The Group recognised a total loss on sale of the Roof Tile Group of $18 million, and incurred costs related to the divestment process of Formica of $13 million. Given the advanced stage of the Formica process, the Formica group has been recognised as 'held for sale' in the interim financial statements and was required to undergo an impairment test. Accordingly, an impairment of $37 million of goodwill has been recognised based on expected sale proceeds.

Funding costs remained elevated at $62 million, with additional interest charges arising from the debt covenant breach expected to cease in March 2019.

The tax expense of $61 million compared to a tax benefit of $117 million in the prior corresponding period. The prior result reflects the impact of the B+I loss provisions recognised during the period.

Earnings per share were 10.4 cents compared with (39.2) cents per share in the prior corresponding period. Adjusted for the impact of B+I and significant items, earnings per share were 18.8 cents compared with 26.0 cents per share in the prior corresponding period.

Iplex Pipelines

Group Cash Flow

	As reported			Excluding B+I		
Six months ended 31 December	2018 NZ$m	2017 NZ$m	Change	2018 NZ$m	2017 NZ$m	Change
Operating earnings before significant items[1]	**285**	**(322)**	**607**	**285**	**309**	**(24)**
Depreciation and amortisation	113	110	3	113	110	3
Provisions, significant items and other	(59)	(17)	(42)	(57)	(17)	(40)
Trading cash flow before working capital movements	**339**	**(229)**	**568**	**341**	**402**	**(61)**
Residential and Development	(29)	9	(38)	(29)	9	(38)
Construction	(124)	491	(615)	(21)	(7)	(14)
Debtors[2]	85	93	(8)	85	93	(8)
Inventories[2]	(96)	(61)	(35)	(96)	(61)	(35)
Creditors[2]	(211)	(101)	(110)	(211)	(101)	(110)
Working capital movements	**(375)**	**431**	**(806)**	**(272)**	**(67)**	**(205)**
Trading cash flow	**(36)**	**202**	**(238)**	**69**	**335**	**(266)**
Less: cash tax paid	(17)	(30)	13	(17)	(30)	13
Less: interest paid	(61)	(62)	1	(61)	(62)	1
Cash flows from operating activities	**(114)**	**110**	**(224)**	**(9)**	**243**	**(252)**

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 2018. Details of significant items can be found in note 4 of the interim financial statements.

2 These working capital movements exclude the Residential and Development and Construction divisions as these are disclosed separately.

Cash flows from operating activities of $(114) million were $224 million lower than the prior year. The ongoing cost of completing the B+I projects resulted in a cash outflow of $105 million compared to an outflow of $133 million in the prior period.

Excluding B+I, cash flows from operating activities of $(9) million were $252 million lower than the prior year. The reduced cash flows are primarily explained by the following working capital movements:

- Residential and Development – working capital outflows of $29 million compared to an inflow of $9 million in the prior corresponding period. This movement was primarily due to a higher number of Land Development transactions in the prior period, which resulted in a significant release of both land stocks and receivables, and accounted for a $(59) million adverse movement in working capital between the two periods. Working capital movements in the Residential business were favourable compared to the prior period, with increased investment in land and housing inventories more than offset by increased collections of Residential debtors;
- Inventories – increased inventory holdings, mainly in the Steel division (reflecting increased imported supply) and the Australia division (reflecting project inventory build), resulted in an overall outflow of $96 million compared to $61 million in the prior period;
- Creditors – creditor outflows of $211 million compared to an outflow of $101 million in the prior period. Increased outflows were due to the timing of major supplier purchases and hence timing of payments across the period, including the impact of sourcing strategies in the Steel and Australia divisions. Creditor movements are expected to normalise in the second half.

Capital expenditure was $139 million, compared with $131 million in the prior year. Of this total, $103 million was for stay-in-business capital projects and $36 million related to new growth initiatives.

Funding

Total available funding as at 31 December 2018 was $2,547 million. Of this, $832 million was undrawn and there was an additional $320 million of cash on hand.

The Group's gearing[1] at 31 December 2018 was 26.2% compared with 23.5% at 30 June 2018.

The Group's leverage ratio[2] (net debt / EBITDA) at 31 December 2018 was 1.7 times compared with 4.8 times at 30 June 2018. Leverage at 31 December 2018 excluding B+I was 1.6 times compared with 1.4 times at 30 June 2018.

The average maturity of the Group's debt at 31 December 2018 is 4 years and the hedged currency split is 38% Australian dollar; 39% New Zealand dollar; 13% US dollar; and 10% spread over various other currencies.

Approximately 61% of all borrowings have fixed interest rates with an average duration of 2.6 years and a rate (based on period end borrowings) of 7.2%. Inclusive of floating rate borrowings, the average interest rate on the debt (based on period end borrowings) is 6.3%. Interest rates include the additional interest charges arising from the debt covenant breach that are expected to cease in March 2019.

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

Dividend

The 2019 interim dividend is 8.0 cents per share. In line with the Group's tax crediting policy announced in August 2016, the interim dividend will be unimputed for New Zealand tax purposes and unfranked for Australian tax purposes. Accordingly, a supplementary dividend will not be payable to non-New Zealand shareholders.

The dividend will be paid on Wednesday 10 April 2019 to holders registered as at 5.00 pm (NZ time) on Friday 22 March 2019. The shares will be quoted on an ex-dividend basis from Thursday 21 March 2019 on the NZX and ASX.

The Dividend Reinvestment Plan will not be operative for this dividend payment.

Financial highlights (unaudited)

	Six months Dec 2018	Six months Dec 2017	Year ended June 2018
Return on average funds (%)(1)	**7.9**	(6.1)	(2.2)
Return on average equity (%)(2)	**4.4**	(9.8)	(5.2)
Return on average funds – before significant items (%)(1)	**12.3**	(1.9)	0.9
Return on average equity – before significant items (%)(2)	**9.6**	(3.8)	(1.7)
Earnings per share (cents)	**10.4**	(39.2)	(25.5)
Net tangible assets per share ($)	**2.95**	2.20	2.85
Dividends per share (cents)	**8.0**	0.0	0.0
Gearing (%)(3)	**26.2**	39.1	23.5

(1) Rolling 12 month EBIT to average funds (net debt and equity less deferred tax assets).

(2) Rolling 12 month net earnings attributable to shareholders to average shareholders' funds.

(3) Net debt (borrowings less cash and deposits) to net debt and equity.

Outlook

Market Activity

New Zealand – activity in the residential sector in the second half of FY19 is expected to be broadly flat compared to the prior period, driven by a continued elevated level of new residential consents, offset slightly by a lower average floor area of new dwellings. Activity levels in the commercial and infrastructure sectors are also expected to remain broadly stable, though with regional and timing variations due to the impact of large roading and commercial projects.

Australia – residential and commercial activity is expected to decline sharply, including in the key standalone dwellings segment. Infrastructure activity on the Eastern Seaboard is expected to remain robust.

Business Performance

Group EBIT (excluding significant items and assuming a full year of Formica earnings) in FY19 is expected to be in the range of $650 million to $700 million. This compares to earnings guidance provided at the Annual Shareholders' Meeting for FY19 Group EBIT (excluding significant items) of $630 million to $680 million. The $20 million increase in earnings guidance is due to the treatment of the Formica business as 'held for sale' and hence the assets are not subject to depreciation in the second half of FY19.

The following outlook comments can be made by business area:

- New Zealand materials and distribution businesses (Building Products, Distribution, Steel and Concrete): revenue is expected to continue to grow at or slightly ahead of the broader market, with a focus on maintaining strong market share positions. Margin performance will depend principally on our ability to realise price gains to offset increased input costs in a competitive market environment, notwithstanding our ongoing focus on achieving operating and overhead cost efficiencies.
- Residential and Land Development: demand in the key market segment of Auckland houses priced between $600,000 and $900,000 is expected to remain robust, though with prices and margins broadly flat. This is expected to enable Fletcher Living to achieve an increase in the number of houses built and sold from the levels reported in FY18 with a commensurate increase in revenues, however, overall divisional margins will be diluted by a relatively higher level of sales in the Christchurch region. Investment in residential land plus work in progress will be made to support the forward pipeline, and will result in an increase in total divisional funds to approximately $750 million. Land Development earnings are lumpy in nature, and are dependent on completing the next phase of the Wiri development in the second half of FY19.
- Construction: the business will continue to focus on completing the B+I projects within current provisions. Outside B+I, earnings are expected to decline slightly in FY19 as the division adjusts its sales teams and project focus to more stringent bidding discipline. However, a continued strong contribution is expected from Higgins despite the roll-off of some major contracts in Fiji and New Zealand.
- Australia: earnings are expected to decline on the prior year, as revenues and margins come under pressure from a sharp downturn in the highly competitive residential and commercial markets. Margin performance will depend principally on the ability to realise price gains to offset higher input costs in the competitive environment, though with additional focus on achieving operating and overhead cost efficiencies for the new market reality.

Outlook (continued)

- Formica: completion of the Formica divestment is targeted by year-end, though is reliant on timing of anti-trust approvals. EBIT will increase due to treatment of the assets as 'held for sale' and therefore not subject to depreciation in the second half. Excluding this impact, Formica's earnings in FY19 are expected to increase compared to FY18, though with some pressure on input costs in Europe and Asia due to tariffs and a strengthening of the US dollar versus local currencies. The final loss on disposal for the business will be dependent on prevailing FX rates and working capital adjustments on completion.
- Corporate: based on recent restructuring and a focus on removing centralised costs, the Group's corporate overhead costs in FY19 are likely to be at the lower end of the $45 million to $55 million guidance range.

Funding: FY19 funding costs are expected to be in the range of $125 million to $135 million compared to initial guidance of $145 million to $155 million, with the improvement due to interest expense and hedge gains on debt repayments during the year. Additional interest charges arising from the debt covenant breach in FY18 are expected to cease in March 2019.

Winstone Wallboards – GIB

Building Products

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

Six months ended 31 December	2018 NZ$m	2017 NZ$m	Change NZ$m	Change %
Gross revenue	389	405	(16)	(4%)
External revenue	304	324	(20)	(6%)
Operating earnings	66	73	(7)	(10%)
Funds	512	495	17	3%
Trading cash flow	58	73	(15)	(21%)

The Building Products division reported gross revenue of $389 million compared with $405 million in the prior corresponding period. The division's operating earnings were $66 million, compared with $73 million in the prior corresponding period, a reduction of 10% or $7 million.

Revenue in the majority of Building Products businesses was in line with or higher than the prior period. Winstone Wallboards revenue was 3% higher, with record sales in performance boards, while Iplex NZ saw strong momentum in their plumbing and electrical segments. Overall divisional revenue was lower principally due to a one-off project at Humes in the prior year. Regionally, continued growth in Auckland was offset by subdued performance in Waikato and Bay of Plenty following strong growth in recent years.

The contraction in divisional earnings was primarily due to higher input costs for raw materials across a number of businesses which were not able to be fully recovered through sales price increases. These input cost pressures included a temporary spike in electricity prices in the period and higher cost of imported inputs such as gypsum and resin. In the plasterboard sector, competition remained strong which limited price gains, however Winstone Wallboards was able to maintain market share through the period. Laminex was impacted by adverse product mix, where strong revenue growth in decorative panels was offset by a decline in demand for horizontal surfaces.

All business units continued their focus on manufacturing performance during the period, with record manufacturing efficiencies for both Iplex NZ and Tasman Insulation partially offsetting input cost pressures. The division continues to invest in innovation, including the release of Winstone Wallboards' new exterior sheathing solution.

Trading cash flows were an inflow of $58 million compared to an inflow of $73 million in the prior corresponding period, with the decline due mainly to an adverse shift in creditors and receivables balances compared to the prior period.

Distribution

PlaceMakers | Mico | Forman Building Systems | Snappy

Six months ended 31 December	2018 NZ$m	2017 NZ$m	Change NZ$m	Change %
Gross revenue	809	797	12	2%
External revenue	786	777	9	1%
Operating earnings	50	49	1	2%
Funds	284	254	30	12%
Trading cash flow	49	59	(10)	(17%)

The Distribution division reported an increase in gross revenue to $809 million, which was 2% higher than the prior corresponding period. Operating earnings of $50 million were also 2% higher than $49 million in the prior corresponding period.

Activity in the building supplies market has remained elevated in the first half of FY19, though appears to have plateaued overall after several years of strong growth. PlaceMakers' growth varied regionally in the current period, with continued strength in the Auckland market offset by softer conditions in the residential market in Waikato, Bay of Plenty, and Christchurch. Mico continues to generate strong growth across all geographies, including increased commercial project opportunities in the Auckland region.

Operating earnings of $50 million for the period reflected continued earnings growth in PlaceMakers of 2%, while Mico earnings grew strongly by 16% compared to the prior corresponding period. Gross margins remained steady in the division overall, notwithstanding high levels of competition, especially in large commercial projects.

PlaceMakers has completed the rollout of digital mobility to all branches, which has enabled a streamlined customer experience, and opened a new branch in Rotorua in the period following the purchase of a local player, establishing a greater market presence in the Western Bay of Plenty. Mico has entered new adjacencies with the expansion of category offerings into concrete pipes in a number of locations. Snappy continues to gain presence within the DIY market as the division's eCommerce platform, adding functionality and product offerings to drive improved customer engagement.

Trading cash flows were an inflow of $49 million compared to an inflow of $59 million in the prior corresponding period, reflecting lower creditors balances due to the timing of inventory purchases.

Steel

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

Six months ended 31 December	2018 NZ$m	2017 NZ$m	Change NZ$m	Change %
Gross revenue	283	267	16	6%
External revenue	216	204	12	6%
Operating earnings	21	23	(2)	(9%)
Funds	236	187	49	26%
Trading cash flow	(22)	25	(47)	NM

The Steel division reported gross revenue of $283 million, 6% higher than the prior corresponding period. Operating earnings of $21 million decreased by 9% compared to the prior corresponding period.

The growth in gross revenue reflected several factors: market share gains in the North Island; a slight recovery in Canterbury driven by commercial sector activity; growth in roofing volumes; and sales price increases (which contributed 2% of the division's 6% revenue growth). Offsetting these gains were continued subdued trading in the Reinforcing business, and a high level of competition in some key product categories, which limited the full realisation of price increases implemented in the period.

Operating earnings were $21 million compared to $23 million in the prior corresponding period. The decrease of $2 million was primarily due to increased input costs, particularly in painted coil, that were unable to be fully passed on in sales price in a competitive environment.

Following the consolidation of five sites into two over the last 12 months, divisional overhead costs have continued to trend downwards in the period, offsetting inflationary pressures to a degree. The Reinforcing business remains focused on improving project profitability and performance, which will be supported by a new operating management system that was deployed during the period. Easysteel have continued to see success with customer wins, principally in Auckland, which will deliver continued momentum into the second half of the financial year.

Trading cash flows were an outflow of $22 million compared to an inflow of $25 million in the prior corresponding period reflecting adverse inventory and creditor movements. The division increased its dual supply of raw materials during the period, leading to a larger proportion of imported product. Inventory balances have increased as the business adjusts to longer import lead times and reflect the increase in input prices. Unfavourable creditor movements reflect shorter supplier payment terms for dual sourced product and high creditor balances at 30 June 2018 arising from the timing of the financial year end that were not replicated in December. Reversing the impacts of dual sourcing will depend on a lift in performance from local sourcing options.

Concrete

Winstone Aggregates | Golden Bay Cement
Firth Industries

Six months ended 31 December	2018 NZ$m	2017 NZ$m	Change NZ$m	Change %
Gross revenue	404	427	(23)	(5%)
External revenue	275	287	(12)	(4%)
Operating earnings	42	46	(4)	(9%)
Funds	638	657	(19)	(3%)
Trading cash flow	49	41	8	20%

The Concrete division reported gross revenue of $404 million compared with $427 million in the prior corresponding period. The 5% decrease has resulted mainly from reductions in ready mix and masonry sales and a temporary loss of revenue as a result of the breakdown of a cement mill. The decrease was partially offset by strong revenue growth in the aggregates business.

Operating earnings were $42 million compared to $46 million in the prior corresponding period. In September 2018 the largest of the cement mills at the Portland manufacturing facility suffered a breakdown and was out of commission for four weeks. The incident had a net EBIT impact of $6.7 million in the period. When adjusted for the impact of the cement mill breakdown, divisional operating earnings were 6% ahead of the prior period, attributable mainly to the higher Aggregates sales and improved gross margin performance in both Cement and Aggregates.

Aggregates revenue increased by 8% on the prior corresponding period driven by both improved pricing and mix, and an increase in volumes of 3%. The quarry investment programme continues with a focus on developing capability within the existing quarry footprint to lift efficiency and volume, positioning the business to take advantage of regional growth opportunities. The division has signed a conditional agreement to purchase the operations of Waikato Aggregates Limited, representing the continued investment in future resource.

Winstone Aggregates

This quarry purchase obtained regulatory approval in February 2019 and is expected to generate operating earnings of $2 million to $3 million in FY20.

Cement revenue decreased by 6% over the prior corresponding period. Almost all of this decline was driven by lost sales resulting from the impact of the cement mill breakdown and a drop in export volumes. Excluding the impact of the mill breakdown, domestic revenue was 1% lower than the prior period.

Ready-mix revenue reduced by 2% on the prior corresponding period, reflecting a timing difference between the completion of large infrastructure projects in the prior period and a delay before work on new projects commences. Reduced market activity in Christchurch and the Bay of Plenty was offset by increases in Auckland and Wellington. The division has achieved good growth in sales prices during the period with further increases scheduled to come into effect from February 2019.

The new Auckland airport precinct ready-mix plant is now completed further developing Firth's comprehensive network.

The improvement in the division's operating earning (excluding the mill breakdown) is largely a result of the following factors:

- Improved efficiency in the cement supply chain;
- Realisation of efficiencies from the recent investment in masonry manufacturing; and
- Successful execution of turnaround plans at a number of quarries and strong performance from the broader portfolio.

The Tyre Derived Fuel project being undertaken at the Portland cement plant in conjunction with the Ministry for the Environment is now in progress. Once it is completed in FY20, it will deliver reduced energy costs and a smaller carbon footprint, combined with an environmentally sustainable means of disposing of end of life tyres for New Zealand.

Residential and Development

Residential | Land Development

Six months ended 31 December	2018 NZ$m	2017 NZ$m	Change NZ$m	Change %
Gross revenue	251	236	15	6%
External revenue	251	236	15	6%
Operating earnings	43	47	(4)	(9%)
Funds	661	562	99	18%
Trading cash flow	(7)	58	(65)	NM

Operating earnings Six months ended 31 December	2018 NZ$m	2017 NZ$m	Change %
Residential	37	30	23%
Land Development	6	17	(65%)
Total	**43**	**47**	**(9%)**

The Residential and Development division reported $251 million of gross revenue for the period ended 31 December 2018, an increase of 6% compared to the prior corresponding period. Operating earnings of $43 million were 9% lower than $47 million in the prior corresponding period.

The Residential business continued to grow house sales volumes, which reached 354 units during the period compared to 346 in the prior corresponding period. When section sales are excluded, 346 dwellings were sold in the current period compared to 256 in the prior period, despite sales volumes being restricted in some locations by a house build program that is weighted more to the second half of FY19.

Demand for housing in Auckland priced between $600,000 and $900,000 remains strong and supported sales in the majority of the Auckland development sites, especially Swanson, Waiata Shores and Totara Heights. Settlement times have extended in the last six months as some buyers await the sale of their current house, especially in higher price brackets. The division continues to assess the house typologies offered in each development as these market dynamics change.

In Christchurch, a significant number of the Atlas Quarter apartments were sold during the period and there was an uplift in the number of completed sales from the Awatea development. There continues to be demand for single level standalone houses in suburban Christchurch and higher density dwellings nearer the CBD. A significant milestone was achieved during the period with the first sales of terraces and apartments in the One Central precinct. Fletcher Living continues to work closely with Ōtākaro to determine the best typologies and to advance the development of the remaining stages of One Central.

Residential operating earnings were $37 million, 23% higher than the $30 million reported in the prior corresponding period. The Group adopted NZ IFRS 15 *Revenue from Contracts with Customers* from 1 July 2018, which affected the recognition of revenue from the sale of houses and therefore impacts the comparison of results for the prior period. On a comparable basis (applying current accounting policies to the prior corresponding period), Residential operating earnings for the current period of $37 million were 3% higher than the $36 million in the prior corresponding period. In addition, a $12 million provision relating to the Atlas Quarter apartment project suppressed the prior corresponding period's earnings.

Residential gross margin reduced compared to the prior corresponding period, reflecting a different mix of sales volumes by houses, apartments, sections, and development. In particular, it reflected a greater proportion of units sold in the lower margin Christchurch market, including those at Atlas Quarter, partially offset by a greater relative contribution to margins from house sales compared to the prior period. Apartment sales in Atlas Quarter were made in line with the forecast loss provisions recognised in FY18.

Fletcher Living – Waiata Shores

Land Development operating earnings in the period were $6 million, compared to $17 million in the prior corresponding period. The earnings were mainly attributed to the sale of a Rocla site in Canberra, and one Tradelink site in Victoria, Australia. The business continues to target operating earnings of at least $25 million from Land Development activities in the current financial year.

Funds employed increased to $661 million from $604 million at 30 June 2018. This included $99 million of lot purchases and $52 million of costs to develop residential land. The current funds balance includes 2,878 residential lots for further development or for sale. In addition, the business holds a further 908 units under unconditional agreements, to be delivered over the next five years.

Trading cash flows were an outflow of $7 million compared to an inflow of $58 million in the prior corresponding period. This reflected increased investment in work in progress on a greater number of houses than last year, increased purchases of land, and the prior period included $70 million of proceeds from the Land Development business.

Construction

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

Six months ended 31 December	2018 NZ$m	2017 NZ$m	Change NZ$m	Change %
Gross revenue	866	1,001	(135)	(13%)
External revenue	842	954	(112)	(12%)
Operating earnings	15	(619)	634	NM
Funds	(113)	(330)	217	(66%)
Trading cash flow	(97)	(112)	15	(13%)

Operating earnings	2018 NZ$m	2017 NZ$m	Change %
Higgins	15	18	(17%)
Infrastructure, South Pacific, Brian Perry Civil	0	(6)	(100%)
	15	**12**	**25%**
B+I	0	(631)	NM
Total	**15**	**(619)**	**NM**

The Construction division recorded gross revenue for the period of $866 million compared to $1,001 million for the prior corresponding period, reflecting the impact of the completion of a number of B+I projects. The division returned to profitability in the period with an operating earnings result of $15 million compared with a loss of $619 million in the prior corresponding period ($12 million when excluding the B+I loss of $631 million).

The division made good progress on its turnaround, with the appointment of Peter Reidy as Chief Executive on 29 October 2018, the division trading profitably for the period, and positive traction achieved on key governance, risk management and commercial initiatives. Peter Reidy brings an extensive construction background to the division with experience at Downer in New Zealand and Australia, and more recently as Chief Executive of KiwiRail.

At 31 December 2018, the backlog of work for the division, being the value of contracted work not yet delivered, was $1.6 billion compared with $2.3 billion at 31 December 2017. B+I accounted for 63% of this reduction in backlog. The division remains focused on a strong pipeline of infrastructure and civil opportunities coming to market as well as embedding improved risk management processes at the tender and execution stages. The division has been successful in winning some key projects

Waikato Expressway – Hamilton's City Edge

including the Northern Interceptor project for Watercare and a large share of Safe Roads projects for the NZ Transport Agency as they prioritise upgrading the existing roading network over large new construction projects. Overall, though, a tightening of bid disciplines in the division has led to reduced work volume and backlog.

With respect to B+I, there is no change to the project provisions announced in February 2018 and the focus remains on project completion. Of the 16 key projects, eight were completed by 31 December 2018, seven are on track to be completed by 31 December 2019, with the last to be completed in 2020.

The earnings contribution from Higgins decreased slightly compared to the prior corresponding period, due primarily to the completion of the N2 roading project in Fiji early in FY19. Higgins Fiji has successfully re-tendered for two maintenance contracts, underpinning its ongoing presence in that market. In New Zealand, performance was robust with 14% year on year revenue growth and good forward workloads.

In aggregate, the other businesses in the division (Infrastructure, Brian Perry, and South Pacific) reported a small loss in the period as the current project workload was insufficient to fully recover overheads. The Infrastructure business continues to record nil margin in respect of the Puhoi to Warkworth project, a 50-50 joint venture between Fletcher Construction and Acciona. The partners are working actively on a range of options to mitigate the project risks as the key summer earthworks season progresses.

Trading cash flows were an outflow of $97 million compared to an outflow of $112 million in the prior corresponding period, reflecting the continued cash outflows from the B+I project loss provisions. The division, excluding B+I, recorded a cash inflow of $7.4 million.

Divisions

Australia

Building Products Australia: Laminex Australia
Iplex Australia | Rocla | Fletcher Insulation
Distribution Australia: Tradelink | Oliveri Solutions
Steel Australia: Stramit

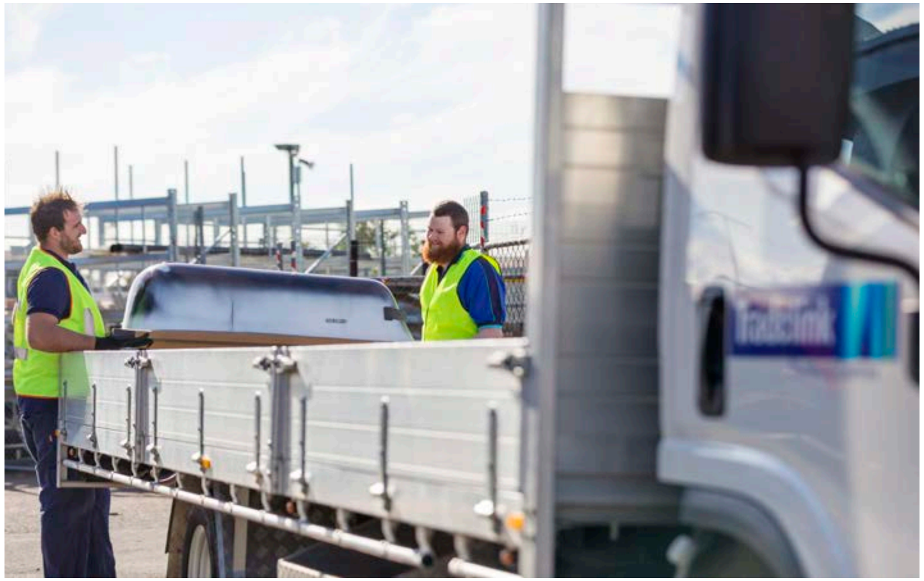
Six months ended 31 December	2018 NZ$m	2017 NZ$m	Change NZ$m	Change %
Gross revenue	1,557	1,547	10	1%
External revenue	1,511	1,499	12	1%
Operating earnings (NZ$m)	33	53	(20)	(38%)
Operating earnings (A$m)	30	49	(19)	(39%)
Funds	1,876	1,879	(3)	(0%)
Trading cash flow	(71)	26	(97)	NM

Operating earnings	2018 NZ$m	2017 NZ$m	Change %
Building Products Australia	24	36	(33%)
Distribution Australia	2	4	(50%)
Steel Australia	8	13	(38%)
Divisional costs	(1)		NM
Total	**33**	**53**	**(38%)**

The Australia division reported gross revenue of $1,557 million compared with $1,547 million in the prior corresponding period, an increase of 1%. Operating earnings were $33 million, a decrease of $20 million or 38% on the prior corresponding period.

Overall performance in the division was well below expectations, impacted by a combination of: a cooling residential market, which resulted in lower volumes and heightened competitive intensity in businesses exposed to that sector (especially Laminex, Stramit and Tradelink); and gross margin compression in all businesses, as increased input costs (e.g. resin, fuel, steel) could not be recovered in price in this environment. Increased input costs were due in part to a depreciation of the Australian currency ($10 million earnings impact compared to the prior period). Earnings pressure in Australia was offset to a degree by overhead cost savings, with further work underway to ensure the division has a sustainable future cost base.

Building Products Australia delivered gross revenue growth of 1%, however operating earnings before significant items decreased by $12 million or 33%, driven by a reduction



Tradelink

in earnings in Laminex. Gross revenue declined 3% in Laminex, with earnings also impacted by increased material input costs, adverse product mix, and one-off costs associated with industrial action in September-October. Revenue in the pipelines businesses increased as the civil infrastructure market experienced continued growth, however, foreign exchange rates and increased raw material costs (especially in Iplex) meant these revenue gains did not flow through to earnings. Iplex announced market price increases in the second quarter to offset these cost pressures. Fletcher Insulation made a small loss in the period as it was impacted by a fire at its Rooty Hill facility.

Distribution Australia recorded modest gross revenue increases of $4 million in the period with operating earnings declining by $2 million compared to the prior corresponding period. In Tradelink, market share gains continued in the small to medium network customer segment (SME), and seven new stores were opened. The project sector was far more challenging, and declines here offset gains in the SME segment. Oliveri Solutions (formerly Tasman Sinkware) held revenue in line with the prior period, though earnings declined slightly due to adverse product mix.

Steel Australia reported a gross revenue decline of 2% compared to the prior corresponding period. Operating earnings declined to $8 million with raw material costs and unfavourable foreign exchange rates on input costs not fully recovered though price increases in a competitive market environment.

Trading cash flows were an outflow of $71 million compared to an inflow of $26 million in the prior corresponding period. Trading cash declined due to lower earnings and adverse movements in working capital, which were partly due to high creditor balances at the start of the period and an increase in inventory holdings in Iplex and Laminex. A portion of these inventory increases were due to specific project requirements and will reduce through to 30 June 2019.

Formica and Roof Tile Group

Formica | Roof Tile Group

Six months ended 31 December	2018 NZ$m	2017 NZ$m	Change NZ$m	Change %
Gross revenue	581	558	23	4%
External revenue	569	557	12	2%
Operating earnings before significant items[1]	37	26	11	42%
Significant items[2]	(68)		(68)	NM
Operating earnings	(31)	26	(57)	NM
Funds	1,173	1,246	(73)	(6%)
Trading cash flow	35	35		NM

Operating earnings before significant items[1]	2018 NZ$m	2017 NZ$m	Change %
Formica	37	33	12%
Roof Tile Group	3	(4)	NM
Divisional costs	(3)	(3)	0%
Total	**37**	**26**	**42%**

The division reported gross revenue of $581 million for the period, an increase of 4% on the prior corresponding period. Operating earnings were $37 million, up 42% from $26 million in the prior corresponding period.

Formica gross revenue was up by 7%. In domestic currencies gross revenue was up by 3%, driven by gains in North America and Asia, with NZD revenues also supported by favourable currency translation. Operating earnings for Formica were $37 million, up by 12% from $33 million in the prior corresponding period.

In North America, gross revenue increased by 2% in domestic currencies, while operating earnings increased by 4%. The business achieved sales price increases to offset raw material price rises, improved SG&A performance, and continued to obtain improvements in operational performance to achieve the increase in operating earnings.

In Asia, gross revenue increased in domestic currencies by 7% driven by continued improvement in activity levels in the major markets. Performance in China remained strong with revenue up by 13% on the prior corresponding period driven by continuing project growth and market share gains. Modest growth in Malaysia, Hong Kong, and Taiwan were offset by slight reductions in Thailand and Singapore. Operating earnings in Asia were up by 17% on the prior corresponding period, primarily due to the growth in revenue, favourable currency translation and continuing improvements in the operating facilities. The benefits of these were muted in part by increasing input costs due to a strengthening USD.

In Europe, gross revenue decreased by 2% in domestic currencies compared to the prior corresponding period. Operating earnings decreased by $2 million on the prior corresponding period. Gross margin fell due to adverse change in product mix from higher sales of lower margin thick laminate, and higher raw material input costs which were largely commodity driven. These were partially offset by 10% overhead cost savings and a change in the UK pension plans leading to a one-off gain.

The division recorded $68 million of significant items during the period. These included the total loss on sale of the Roof Tile Group business of $18 million, transaction costs of $13 million incurred to date as part of the divestment of the Formica business, and an impairment charge of $37 million resulting from the classification of the Formica business as 'held for sale' at period end.

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 2018.
2. Details of significant items can be found in note 4 of the interim financial statements.

Formica Magnetic Writeable Laminates

Consolidated income statement (unaudited)

For the six months ended 31 December 2018

	Note	Six months Dec 2018 NZ$M	Six months Dec 2017 NZ$M	Year ended Jun 2018 NZ$M
Revenue		**4,754**	4,889	9,471
Cost of goods sold	13	**(3,454)**	(4,161)	(7,423)
Gross margin		**1,300**	728	2,048
Selling and marketing expenses	13	**(705)**	(672)	(1,307)
Administration expenses		**(318)**	(394)	(717)
Share of profits of associates and joint ventures		**8**	16	26
Significant items	4	**(68)**		(168)
Earnings before interest and taxation (EBIT)		**217**	(322)	(118)
Funding costs		**(62)**	(63)	(157)
Earnings before taxation		**155**	(385)	(275)
Taxation expense	6	**(61)**	117	96
Earnings after taxation		**94**	(268)	(179)
Earnings attributable to non-controlling interests		**(5)**	(5)	(11)
Net earnings attributable to the shareholders		**89**	(273)	(190)
Earnings after taxation arises from:				
Continuing operations		**147**	(284)	(177)
Discontinued operations	5	**(53)**	16	(2)
		94	(268)	(179)
Net earnings per share from continuing operations (cents)				
Basic		**16.6**	(41.5)	(25.2)
Diluted		**15.7**	(41.5)	(25.2)
Net earnings per share (cents)				
Basic		**10.4**	(39.2)	(25.5)
Diluted		**10.2**	(39.2)	(25.5)
Weighted average number of shares outstanding (millions of shares)				
Basic		**853**	696	745
Diluted		**974**	696	745
Dividends declared per share (cents)		**8.0**	0.0	0.0

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

Consolidated statement of comprehensive income (unaudited)

For the six months ended 31 December 2018

	Six months Dec 2018 NZ$M	Six months Dec 2017 NZ$M	Year ended June 2018 NZ$M
Net earnings/(loss) attributable to shareholders	**89**	(273)	(190)
Net earnings attributable to non-controlling interests	**5**	5	11
Net earnings/(loss)	**94**	(268)	(179)
Other comprehensive income			
Items that do not subsequently get reclassified to profit or loss:			
Movement in pension reserve	**(4)**	(3)	10
	(4)	(3)	10
Items that may be reclassified subsequently to profit or loss in the future:			
Movement in cash flow hedge reserve	**(1)**	2	2
Movement in currency translation reserve	**(28)**	108	129
	(29)	110	131
Items that have been reclassified to profit or loss during the period:			
Reclassification from currency translation reserve	**(7)**		
	(7)		
Other comprehensive income	**(40)**	107	141
Total comprehensive income/(loss) for the period	**54**	(161)	(38)
Total comprehensive income/(loss) for the period arises from:			
Continuing operations	**97**	(225)	(119)
Discontinued operations	**(43)**	64	81
	54	(161)	(38)

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

Consolidated statement of movements in equity (unaudited)

For the six months ended 31 December 2018

	NOTES	Share capital NZ$M	Retained earnings NZ$M	Share-based payments reserve NZ$M	Cash flow hedge reserve NZ$M	Currency translation reserve NZ$M	Pension reserve NZ$M	Total NZ$M	Non-controlling interests NZ$M	Total equity NZ$M
Total equity at 30 June 2017		2,678	1,216	13	(2)	(286)	(63)	3,556	24	3,580
Total comprehensive income/(loss) for the period			(273)		2	108	(3)	(166)	5	(161)
Movement in non-controlling interests									(5)	(5)
Issue of shares		9						9		9
Dividends paid to shareholders of the parent			(132)					(132)		(132)
Movement in share-based payment reserve				(5)				(5)		(5)
Movement in treasury stock		9						9		9
Total equity at 31 December 2017		2,696	811	8		(178)	(66)	3,271	24	3,295
Total equity at 30 June 2017		2,678	1,216	13	(2)	(286)	(63)	3,556	24	3,580
Total comprehensive income/(loss) for the year			(190)		2	129	10	(49)	11	(38)
Movement in non-controlling interests									(11)	(11)
Issue of shares		736						736		736
Dividends paid to shareholders of the parent			(132)					(132)		(132)
Movement in share-based payment reserve				(4)				(4)		(4)
Movement in treasury stock		11						11		11
Total equity at 30 June 2018		3,425	894	9		(157)	(53)	4,118	24	4,142
Change in accounting policies	13		(19)					(19)		(19)
Adjusted equity at 30 June 2018		3,425	875	9		(157)	(53)	4,099	24	4,123
Total comprehensive income/(loss) for the period			89		(1)	(35)	(4)	49	5	54
Movement in non-controlling interests									(6)	(6)
Movement in share-based payment reserve				1				1		1
Movement in treasury stock		(1)						(1)		(1)
Total equity at 31 December 2018		**3,424**	**964**	**10**	**(1)**	**(192)**	**(57)**	**4,148**	**23**	**4,171**

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

Consolidated balance sheet (unaudited)

As at 31 December 2018

	Note	Dec 2018 NZ$M	Dec 2017 NZ$M	June 2018 NZ$M
Assets				
Current assets:				
Cash and deposits		**284**	190	665
Current tax assets		**67**	35	72
Contract assets	7	**41**	12	38
Derivatives		**19**	6	6
Debtors		**1,159**	1,468	1,629
Inventories		**1,756**	1,800	1,748
		3,326	3,511	4,158
Assets classified as held for sale	5	**412**		
Total current assets		**3,738**	3,511	4,158
Non-current assets:				
Property, plant and equipment		**1,687**	2,247	2,241
Goodwill	9	**712**	1,099	1,085
Intangible assets		**407**	639	601
Investments in associates and joint ventures		**151**	154	149
Retirement plan assets		**85**	72	88
Other investments			1	1
Derivatives		**91**	79	86
Deferred tax assets		**136**	182	161
		3,269	4,473	4,412
Assets classified as held for sale	5	**1,025**		
Total non-current assets		**4,294**	4,473	4,412
Total assets		**8,032**	7,984	8,570

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

Consolidated balance sheet (unaudited) – continued

As at 31 December 2018

	Note	Dec 2018 NZ$M	Dec 2017 NZ$M	June 2018 NZ$M
Liabilities				
Current liabilities:				
Creditors and accruals		**1,149**	1,369	1,547
Provisions		**69**	61	89
Current tax liabilities		**18**	36	26
Derivatives		**2**	5	7
Contract liabilities	7	**495**	744	664
Borrowings	8	**434**	1,701	185
		2,167	3,916	2,518
Liabilities classified as held for sale	5	**183**		
Total current liabilities		**2,350**	3,916	2,518
Non-current liabilities:				
Creditors and accruals		**39**	25	38
Provisions		**19**	22	25
Retirement plan liabilities			37	38
Deferred tax liabilities			43	37
Derivatives		**26**	39	19
Borrowings	8	**1,354**	607	1,753
		1,438	773	1,910
Liabilities classified as held for sale	5	**73**		
Total non-current liabilities		**1,511**	773	1,910
Total liabilities		**3,861**	4,689	4,428
Equity				
Share capital		**3,424**	2,696	3,425
Reserves		**724**	575	693
Shareholders' funds		**4,148**	3,271	4,118
Non-controlling interests		**23**	24	24
Total equity		**4,171**	3,295	4,142
Total liabilities and equity		**8,032**	7,984	8,570

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

On behalf of the Board, 20 February 2019.

Bruce Hassall
Chairman

Rob McDonald
Director

Consolidated statement of cash flows (unaudited)

For the six months ended 31 December 2018

	Six months Dec 2018 NZ$M	Six months Dec 2017 NZ$M	Year ended Jun 2018 NZ$M
Cash flow from operating activities			
Receipts from customers	**4,859**	5,003	9,810
Dividends received	**3**	4	18
Payments to suppliers, employees and other	**(4,898)**	(4,805)	(9,189)
Interest paid	**(61)**	(62)	(158)
Income tax paid	**(17)**	(30)	(85)
Net cash from operating activities	**(114)**	110	396
Cash flow from investing activities			
Sale of property, plant and equipment	**1**	14	19
Sale of subsidiaries/investments	**80**	1	57
Purchase of property, plant and equipment and intangible assets	**(139)**	(131)	(304)
Purchase of subsidiaries/businesses	**(10)**		
Net cash from investing activities	**(68)**	(116)	(228)
Cash flow from financing activities			
Issue of shares			727
Issue of capital notes		221	221
Net debt repayment	**(151)**	(117)	(483)
Repurchase of capital notes			(55)
Distribution to non-controlling interests	**(11)**	(8)	(15)
Dividends		(123)	(123)
Net cash from financing activities	**(162)**	(27)	272
Net movement in cash held	**(344)**	(33)	440
Add: opening cash and liquid deposits	**665**	219	219
Less: cash balances classified as held for sale	**(36)**		
Effect of exchange rate changes on net cash	**(1)**	4	6
Closing cash and deposits	**284**	190	665

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

1. BASIS OF PRESENTATION

The condensed consolidated interim financial statements presented are those of Fletcher Building Limited and its subsidiaries (the "Group"). Fletcher Building Limited is a company domiciled in New Zealand, registered under the Companies Act 1993 and is a Financial Markets Conduct Act 2013 reporting entity in terms of the Financial Reporting Act 2013 under which the interim financial statements are prepared. The Company is a profit oriented entity. The condensed consolidated interim financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand, which is the New Zealand equivalent to International Financial Reporting Standards (NZ IFRS). They comply with NZ IAS 34 Interim Financial Reporting and should be read in conjunction with the 30 June 2018 annual report available on the Group website at www.fletcherbuilding.com.

2. CHANGES IN ACCOUNTING POLICIES

The accounting policies and computation methods applied in the preparation of the interim financial statements are consistent with those applied in the last annual financial statements with the exception of the following:

NZ IFRS 15 Revenue from Contracts with Customers

The Group adopted NZ IFRS 15 from 1 July 2018 using the modified retrospective approach. As a result, the Group has restated its opening equity position as at 1 July 2018 by $19 million to reflect the impact of transitioning to NZ IFRS 15. This adjustment primarily reflects the change in the timing of the recognition of revenue from house sales in the Residential division.

In line with the requirements of the standard with regards to the transition option adopted, the Group has not restated the comparative information presented, which continues to be reported under previous revenue standards, NZ IAS 11 and NZ IAS 18.

On adoption of NZ IFRS 15, the Group has revised its accounting policies for revenue recognition (where applicable) which are disclosed in note 13. These interim financial statements also include a number of additional disclosures required by NZ IFRS 15, refer to note 7.

A number of new standards, amendments and interpretations have been issued by the International Accounting Standards Board and the External Reporting Board in New Zealand that are not yet effective and have not been early adopted by the Group. Those which may be relevant to the Group are set out below:

NZ IFRS 16 Leases

NZ IFRS 16 was issued in February 2016 and will be effective for the Group for the period beginning 1 July 2019. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases for both lessees and lessors. NZ IFRS 16 replaces NZ IAS 17 and the related interpretations.

For lessees, NZ IFRS 16 removes distinctions between operating leases and finance leases and introduces a single lessee accounting model. Under this new model, right-of-use assets and lease liabilities are recognised for all lease contracts except for short-term leases and leases of low value assets.

The Group's NZ IFRS 16 project is governed by a Steering Group which oversees the relevant project work streams, approves key decisions, and provides regular updates to the Group's Audit and Risk Committee.

During the half year to 31 December 2018 work has progressed regarding:

- Developing an approach to key accounting judgements;
- Collecting and validating the Group's complete portfolio of lease data; and
- Implementing an IT system solution to record and calculate the NZ IFRS 16 impact.

The Group intends to adopt the standard using the modified retrospective approach. This will require an adjustment to equity as at 1 July 2019, however prior year comparatives will not be restated. From January 2019, the Group will finalise data collation and validation, embed a strong internal control environment over the NZ IFRS 16 process and finalise the relevant accounting policies. Given the complexity of the judgements involved, the impact of NZ IFRS 16 on the Group is not yet fully quantified at this stage. However, the impact of NZ IFRS 16 on the Group financial statements is expected to be significant.

3. SEGMENTAL INFORMATION

Segmental information is presented in respect of the Group's industry and geographical segments. Where stated, discontinued operations relate to the Formica and Roof Tile Group division and represents the divestment of the Roof Tile Group and the classification of the Formica business as held for sale at period end (refer to note 5).

	Six months Dec 2018 NZ$M	Six months Dec 2017 NZ$M	Year ended June 2018 NZ$M
Industry segments			
Gross sales			
Building Products	**389**	405	764
Distribution	**809**	797	1,530
Steel	**283**	267	532
Concrete	**404**	427	812
Residential and Development	**251**	236	575
Construction	**866**	1,001	1,685
Australia	**1,557**	1,547	3,076
Other	**6**	5	8
Continuing operations	**4,565**	4,685	8,982
Divested		51	108
Discontinued operations	**581**	558	1,177
Group	**5,146**	5,294	10,267
Less: Intercompany sales	**(392)**	(405)	(796)
External sales per income statement	**4,754**	4,889	9,471

	Six months Dec 2018 NZ$M	Six months Dec 2017 NZ$M	Year ended June 2018 NZ$M
External sales			
Building Products	**304**	324	613
Distribution	**786**	777	1,490
Steel	**216**	204	411
Concrete	**275**	287	545
Residential and Development	**251**	236	575
Construction	**842**	954	1,605
Australia	**1,511**	1,499	2,973
Continuing operations	**4,185**	4,281	8,212
Divested		51	108
Discontinued operations	**569**	557	1,151
External sales per income statement	**4,754**	4,889	9,471
EBIT before significant items and B+I			
Building Products	**66**	73	132
Distribution	**50**	49	104
Steel	**21**	23	49
Concrete	**42**	46	90
Residential and Development	**43**	47	136
Construction	**15**	12	52
Australia	**33**	53	114
Corporate	**(22)**	(26)	(45)
	248	277	632
Building + Interiors (B+I)		(631)	(660)
Continuing operations	**248**	(354)	(28)
Divested		6	13
Discontinued operations	**37**	26	65
Significant items (note 4)	**(68)**		(168)
Earnings before interest and taxation (EBIT) per income statement	**217**	(322)	(118)

	Six months Dec 2018 NZ$M	Six months Dec 2017 NZ$M	Year ended June 2018 NZ$M
Significant items			
Building Products			
Distribution			(3)
Steel			(8)
Concrete			(17)
Residential and Development			
Construction			(5)
Australia			(49)
Corporate			(66)
Continuing operations			(148)
Divested			37
Discontinued operations	**(68)**		(57)
Total	**(68)**		(168)
Depreciation, depletion and amortisation expense			
Building Products	**6**	7	13
Distribution	**5**	5	9
Steel	**3**	3	5
Concrete	**25**	22	45
Residential and Development			
Construction	**10**	11	20
Australia	**32**	32	62
Corporate	**6**	8	16
Continuing operations	**87**	88	170
Divested			3
Discontinued operations	**26**	22	41
Group	**113**	110	214

	Six months Dec 2018 NZ$M	Six months Dec 2017 NZ$M	Year ended June 2018 NZ$M
Capital expenditure			
Building Products	**10**	7	19
Distribution	**11**	8	20
Steel	**8**	6	14
Concrete	**17**	31	62
Residential and Development	**2**		1
Construction	**15**	16	33
Australia	**33**	26	79
Corporate	**4**	9	13
Continuing operations	**100**	103	241
Divested			2
Discontinued operations	**39**	28	61
Group	**139**	131	304
Funds*			
Building Products	**512**	495	494
Distribution	**284**	254	264
Steel	**236**	187	184
Concrete	**638**	657	628
Residential and Development	**661**	562	604
Construction	**(113)**	(330)	(238)
Australia	**1,876**	1,879	1,804
Other (including debt and taxation)	**(1,096)**	(1,688)	(869)
Continuing operations	**2,998**	2,016	2,871
Divested		33	27
Discontinued operations	**1,173**	1,246	1,244
Total	**4,171**	3,295	4,142

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

	Six months Dec 2018 NZ$M	Six months Dec 2017 NZ$M	Year ended June 2018 NZ$M
Geographic segments			
External sales			
New Zealand	**2,600**	2,750	5,220
Australia	**1,522**	1,537	3,018
North America	**223**	221	465
Asia	**177**	163	314
Europe	**137**	152	316
Other jurisdictions	**95**	66	138
Group	**4,754**	4,889	9,471
EBIT before significant items			
New Zealand	**195**	(425)	(172)
Australia	**32**	63	123
North America	**19**	16	43
Asia	**26**	23	38
Europe	**(5)**	(7)	(6)
Other jurisdictions	**18**	8	24
	285	(322)	50
Significant items (note 4)	**(68)**		(168)
Earnings before interest and taxation (EBIT) per income statement	**217**	(322)	(118)
Funds*			
New Zealand	**2,243**	1,996	2,006
Australia	**1,891**	1,888	1,810
North America	**312**	318	350
Asia	**498**	493	492
Europe	**355**	383	270
Other (including debt and taxation)	**(1,128)**	(1,783)	(786)
Group	**4,171**	3,295	4,142
Non-current assets[+]			
New Zealand	**1,559**	1,594	1,517
Australia	**1,355**	1,454	1,420
North America	**297**	308	319
Asia	**448**	438	458
Europe	**276**	299	315
Other	**46**	46	48
Group	**3,981**	4,139	4,077

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

[+] Excludes deferred tax assets, retirement plan surplus and financial instruments.

4. SIGNIFICANT ITEMS

Six months ended 31 December 2018

	M&A Activity (1) NZ$M	Impairments (2) NZ$M	Total NZ$M
Formica and Roof Tile Group	(31)	(37)	(68)
Total significant items before taxation	(31)	(37)	(68)
Tax expense on above items	(3)		(3)
Total significant items after taxation	(34)	(37)	(71)

(1) M&A activity

On 1 November 2018 the Group divested the Roof Tile Group business for total proceeds of $66 million. A net loss on sale of $18 million has been recorded, comprising a transaction loss of $11 million and the reclassification of $7 million of the foreign currency translation reserve. The Group has also incurred transaction costs during the period related to the sale of the Formica business of $13 million.

(2) Impairments

During the period, the Group has recognised a $37 million impairment charge relating to the Formica business, where goodwill has been impaired to recognise the business as held for sale at the lower of carrying value and fair value less costs to sell (refer note 5).

Six months ended 31 December 2017

There were no significant items for the six month period ended 31 December 2017.

Year ended 30 June 2018

	Restructuring activity (1) NZ$M	M&A Activity (2) NZ$M	Impairments (3) NZ$M	Total NZ$M
Distribution	(3)			(3)
Steel	(8)			(8)
Concrete			(17)	(17)
Construction			(5)	(5)
Australia	(9)		(40)	(49)
Formica and Roof Tile Group	(5)		(52)	(57)
Divested businesses		37		37
Corporate	(66)			(66)
Total significant items before taxation	(91)	37	(114)	(168)
Tax benefit / (charge) on above items	23		15	38
Total significant items after taxation	(68)	37	(99)	(130)

(1) Restructuring activity

The Group recognised a charge of $91 million for costs associated with the restructure of the Group's operating model. The restructuring includes redundancies and exit costs, as well as:

- $20 million of impairments of various Corporate and Business Unit IT systems and associated external advisory costs incurred.
- $7 million for costs associated with the integration of the Calder Stewart business into the Steel division.
- $3 million for costs associated with the termination of the Formica US Pension Plan.

(2) M&A activity

The Group divested its 50 per cent stake in the Sims Pacific Metals joint venture for $42 million with a resulting net gain on sale of $25 million, and its 20 per cent stake in Dongwha New Zealand Limited for $17 million with a net gain on sale of $12 million.

(3) Impairments

During the year, the Group has recognised a $114 million impairment charge, relating to businesses where the carrying amount exceeded the recoverable amount:

- $40 million relating to Rocla where goodwill of $11 million, brands of $21 million and inventories of $8 million were impaired. Offsetting the impairment of brands is a $7 million reversal of the associated deferred tax liability through tax expense.
- $52 million relating to Roof Tile Group where goodwill of $15 million, brands of $4 million, property, plant and equipment of $29 million, and working capital of $4 million have been impaired.
- $5 million relating to the Forman Contracting brand asset, reflecting a revision in expected medium-term revenues and earnings.
- $17 million relating to the impairment of assets of $12 million and $5 million for disposal costs of a quarry within Winstone Aggregates.

5. ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

During the period, the Group divested the Roof Tile Group business and advanced the divestment process for the Formica business to such a point that it meets the criteria under NZ IFRS 5 to be classified as held for sale at period end. The divestment of the Formica business also meets the definition of a disposal group under NZ IFRS 5, and the required disclosures for a discontinued operation have been included accordingly. The relevant financial information for each business is set out below.

		Six months Dec 2018 NZ$M	Six months Dec 2017 NZ$M	Year ended June 2018 NZ$M
Roof Tile Group	i	**(19)**	(3)	(54)
Formica	ii	**(34)**	19	52
Earnings after taxation from discontinued operations per Income Statement		**(53)**	16	(2)

i) Roof Tile Group

On 1 November 2018 the Group divested the Roof Tile Group for total proceeds of $66 million (including a working capital adjustment of $7 million), of which $59 million had been received at 31 December 2018. This resulted in the following loss on sale.

	Six months Dec 2018 NZ$M
Consideration	66
Less: carrying amount and transaction costs	(77)
	(11)
Less: reclassification of foreign currency translation reserve	(7)
Loss on sale	(18)

ii) Formica

On 18 December 2018 the Group announced it had entered into an agreement for the sale of the global Formica business with an agreed sale price of US$840 million. Under NZ IFRS, the Group is required to perform an impairment test prior to the classification of the business as held for sale to ensure it is held at the lower of its fair value less costs to sell or the current carrying value of the business. Accordingly, the Group has recorded an impairment of NZ$37 million of goodwill in these interim financial statements as a result of that impairment test.

Financial Performance and Cash Flows

At period end, as the Formica business remains wholly owned by Fletcher Building Limited, the financial performance and cash flow information presented below are for the full length of each period presented.

	Six months Dec 2018 NZ$M	Six months Dec 2017 NZ$M	Year ended June 2018 NZ$M
Revenue	**523**	487	1,006
Expenses	**(539)**	(462)	(948)
Earnings before taxation	**(16)**	25	58
Taxation expense	**(18)**	(6)	(6)
Earnings after taxation from discontinued operations	**(34)**	19	52
Movement in exchange differences on translation of discontinued operations	**1**	47	82
Movement in pension reserve	**(4)**	(3)	(4)
Other comprehensive income from discontinued operations	**(3)**	44	78
Net cash inflow from operating activities	**20**	33	102
Net cash outflow from investing activities	**(37)**	(36)	(68)
Net cash outflow from financing activities	**(12)**	(10)	(13)
Net increase/(decrease) in cash generated by the discontinued operation	**(29)**	(13)	21

Assets and Liabilities held for sale

The following assets and liabilities were reclassified as held for sale in relation to the disposal group as at 31 December 2018.

	Six months Dec 2018 NZ$M	Six months Dec 2017 NZ$M	Year ended June 2018 NZ$M
Current assets:			
Cash and deposits	**36**	31	32
Current tax assets		2	13
Debtors	**138**	142	148
Inventories	**238**	234	231
Total current assets	**412**	409	424
Non-current assets:			
Property, plant and equipment	**502**	466	491
Goodwill	**325**	347	360
Intangible assets	**196**	188	195
Deferred tax assets	**2**	36	14
Total non-current assets	**1,025**	1,037	1,060
Total assets of disposal group held for sale	**1,437**	1,446	1,484
Current liabilities:			
Creditors and accruals	**165**	160	187
Provisions	**4**	4	5
Current tax liabilities	**7**	21	19
Borrowings	**7**	20	18
Total current liabilities	**183**	205	229
Non-current liabilities:			
Provisions	**2**	2	2
Retirement plan liabilities	**27**	37	35
Deferred tax liabilities	**40**	64	48
Borrowings	**4**	4	4
Total non-current liabilities	**73**	107	89
Total liabilities of disposal group held for sale	**256**	312	318

6. TAXATION EXPENSE/(BENEFIT)

	Six months Dec 2018 NZ$M	Six months Dec 2017 NZ$M	Year ended June 2018 NZ$M
Earnings/(loss) before taxation:	**155**	(385)	(275)
Taxation at 28 cents per dollar	**43**	(108)	(77)
Adjusted for:			
Higher/(lower) tax rate in overseas jurisdictions	**(1)**	(1)	3
Non assessable income	**(1)**	(6)	(27)
Non deductible expenses	**19**	2	22
Utilisation of previous unrecognised tax losses			(4)
Tax in respect of prior years	**6**		2
Tax losses not recognised	**5**	3	5
Effects of changes in US tax legislation			(5)
Other permanent differences	**(10)**	(7)	(15)
	61	(117)	(96)
Tax expense/(benefit) on earnings from continuing operations	**39**	(123)	(102)
Tax expense/(benefit) on earnings from discontinued operations	**22**	6	6
	61	(117)	(96)
Tax expense/(benefit) on earnings before significant items	**58**	(117)	(58)
Tax expense/(benefit) on significant items	**3**		(38)
	61	(117)	(96)

The deferred tax asset balance of $136 million at 31 December 2018 largely comprises construction losses provided for in the prior period which are expected to be deductible in future years. These losses relate to New Zealand projects, and it is expected there will be sufficient future earnings in New Zealand to utilise the deferred tax asset.

7. CONTRACT ASSETS AND LIABILITIES

The Group has adopted NZ IFRS 15 Revenue from Contracts with Customers during the period, which requires additional disclosures of material contract assets and liabilities. The Group has previously disclosed this information as 'Construction Contracts', and has restated the prior year balances for completeness. There are no other material contract assets or liabilities than those disclosed below.

	Six months Dec 2018 NZ$M	Six months Dec 2017 NZ$M	Year ended June 2018 NZ$M
Gross construction work in progress plus margin to date/less provisions for losses	**7,079**	5,603	5,878
Progress billings	**(7,533)**	(6,335)	(6,504)
	(454)	(732)	(626)
Construction contracts with cost and margin in advance of billings	**41**	12	38
Contract assets	**41**	12	38
Construction contracts with billings in advance of cost and margin	**(120)**	(115)	(184)
Provision for future net cash outflows on loss-making contracts	**(375)**	(629)	(480)
Contract liabilities	**(495)**	(744)	(664)

The provision for future net cash outflows on loss-making contracts at 31 December 2018 is expected to be realised in cash outflows of $194 million through to 30 June 2019, and $181 million thereafter.

Included in sales is $842 million of contract revenue recognised over time during the period (December 2017: $954 million, June 2018: $1,605 million).

Construction work in progress is stated at cost plus profit recognised to date, less progress billings and any provision for future foreseeable losses. Cost includes all expenditure directly related to specific projects and an allocation of fixed and variable overheads incurred in the Group's contract activities based on normal operating capacity.

Estimates and judgements are made relating to a number of factors when assessing construction contracts. These primarily include the programme of work throughout the contract period, assessment of future costs after considering changes in the scope of work, maintenance and defect liabilities, expected inflation (for unlet sub-trades) and performance bonuses or penalties.

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

- The extent to which a project progresses in line with the complex project programme and timetable previously formed and the resulting impact of any programme delays or gains on project costs, especially project overheads (preliminary and general costs) and any liquidated or other damages;
- Sub-contractor cost, in particular cost that is yet to be agreed in scope or price (including inflationary pressures) or that relating to programme prolongation;
- Future weather and ground conditions.

Estimates made are inherently more uncertain earlier in the project's life and on larger, more complex projects. A summary of the Group's major construction projects and their approximate stage of completion is shown below:

Status of construction projects (> $200m original contract value) as at 31 December 2018:

	Business Unit	Percentage of completion (% cost)	Forecast completion
Commercial Bay – Fixed price contract	B+I	59%	2019
NZICC – Guaranteed maximum price and fixed price contract	B+I	56%	2020
Puhoi to Warkworth – Fixed price contract (Public Private Partnership)	Infrastructure	43%	2021
Hamilton City Edge Expressway - Alliance contract	Infrastructure / Higgins	71%	2021
Peka Peka to Otaki Expressway – Fixed price contract	Infrastructure / Higgins	36%	2021

Revenue Backlog by Business Unit as at 31 December 2018:

	Current Revenue Backlog NZ$M	Top 5 projects as a % of Revenue Backlog
Buildings + Interiors	**473**	87%
Infrastructure	**457**	100%
Higgins	**492**	16%
Brian Perry Civil	**128**	29%
South Pacific	**45**	58%
	1,595	N/A

8. BORROWINGS

	Six months Dec 2018 NZ$M	Six months Dec 2017 NZ$M	Year ended June 2018 NZ$M
Bank loans		434	
Capital notes	**200**	71	150
Private placements	**198**	1,150	
Other loans	**36**	46	35
Borrowings – current	**434**	1,701	185
Bank loans	**93**		97
Capital notes	**366**	550	416
Private placements	**852**		1,181
Other loans	**43**	57	59
Borrowings – non-current	**1,354**	607	1,753
Carrying value of borrowings (as per balance sheet)	**1,788**	2,308	1,938
Borrowings – classified as held for sale	**11**		
Carrying value of borrowings	**1,799**	2,308	1,938
Less: impact of debt hedging activities (included within derivatives)	**(112)**	(48)	(92)
Borrowings after impact of hedging activities	**1,687**	2,260	1,846
Add: fair value hedge adjustment included in borrowings	**28**	13	31
Borrowings excluding derivative adjustments	**1,715**	2,273	1,877
Total available funding	**2,547**	3,108	2,705
Unutilised banking facilities	**832**	835	828
Net Debt			
Cash and deposits	**284**	190	665
Cash and deposits – classified as held for sale	**36**		
Borrowings – classified as held for sale	**(11)**		
Current borrowings	**(434)**	(1,701)	(185)
Non-current borrowings	**(1,354)**	(607)	(1,753)
Net Debt	**(1,479)**	(2,118)	(1,273)

9. GOODWILL

The Group performs a detailed impairment assessment annually and considers indicators of impairment at each interim reporting date. At 31 December 2018, the Group performed a review of indicators of impairment for all significant cash-generating units.

Formica

The Group announced on 18 December 2018 that a sale & purchase agreement had been signed for the sale of the global Formica business. As outlined in note 5, the Group recognised an impairment of $37 million of goodwill to bring the carrying value in line with the business unit's fair value less costs to sell.

Other business units

The Group reviewed the performance of all business units at 31 December 2018 and considered each individual CGU for impairment indicators. There was no impairment required as a result of this review.

10. FAIR VALUE MEASUREMENT

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

(Level 1) Quoted prices (unadjusted) in active markets for identical assets or liabilities.

(Level 2) Inputs that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) other than quoted prices included within level 1.

(Level 3) Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

All derivatives are level 2 valuations based on accepted valuation methodologies. Forward exchange fair value is calculated using quoted forward exchange rates and discounted using yield curves derived from quoted interest rates matching maturity of the contract. The fair value of electricity price swaps is measured using a derived forward curve and discounted using yield curves derived from quoted interest rates matching the maturity of the contract. Interest rate derivatives are calculated by discounting the future principal and interest cash flows at current market interest rates that are available for similar financial instruments.

Fair value disclosures

The fair values of borrowings used for disclosure are measured under level 2, by discounting future principal and interest cash flows at the current market interest rate plus an estimated credit margin that is available for similar financial instruments with a similar credit profile to the Group. The interest rates across all currencies used to discount future principal and interest cash flows are between 1.69% and 6.68% (December 2017: 1.70% and 7.14%; June 2018: 1.70% and 7.00%) including margins, for both accounting and disclosure purposes.

11. CONTINGENCIES AND COMMITMENTS

Provision has been made in the ordinary course of business for all known and probable future claims to the extent they can be reliably measured. There have been no material movements in capital expenditure commitments, lease commitments, contingent liabilities or contingent assets to those disclosed in the 2018 annual report.

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

	Six months Dec 2018 NZ$M	Six months Dec 2017 NZ$M	Year ended Jun 2018 NZ$M
Net earnings	**94**	(268)	(179)
Add/(Less) non-cash items:			
Depreciation, depletions and amortisation	**113**	110	214
Other non-cash items	**9**	(16)	148
Taxation	**44**	(147)	(181)
(Gain)/loss on disposal of businesses and property, plant and equipment	**1**		(36)
	167	(53)	145
Net working capital movements			
Residential and Development	**(29)**	9	(28)
Construction	**(124)**	491	407
Other divisions:			
Debtors	**85**	93	(12)
Inventories	**(96)**	(61)	(58)
Creditors	**(211)**	(101)	121
	(375)	431	430
Net cash from operating activities	**(114)**	110	396

13. IMPACT OF NZ IFRS 15 AND OTHER RECLASSIFICATIONS

This note explains the impact of the adoption of NZ IFRS 15 *Revenue from Contracts with Customers* on the Group's interim financial statements and also discloses the new accounting policies that have been applied from 1 July 2018, where they are different to those applied in prior periods.

NZ IFRS 15 - Revenue from Contracts with Customers

Revenue was previously recognised when it was probable that work performed will result in revenue whereas under the new standard, revenue is recognised when it is highly probable that a significant reversal of revenue will not occur. The following are the accounting policies applicable to the recognition of revenue for the Group for the period ended 31 December 2018.

Construction division

Construction contract revenue

The Group derives revenue from the construction of building and infrastructure projects across New Zealand and the South Pacific. Contracts entered into may be for the construction of one or several separate inter-linked pieces of large infrastructure. While it is uncommon, contracts can be entered into for the building of several projects. Where this occurs, the Group will identify the single or multiple performance obligations and allocate the total transaction price across each performance obligation based on stand-alone selling prices. The transaction price is normally fixed at the start of the project.

The nature of construction projects leads to variations in the project size and scope. It is also normal practice for contracts to include bonus and penalty elements based on timely construction or other performance criteria known as variable consideration, discussed below.

The performance obligation is fulfilled over time and as such revenue is recognised over time. As work is performed on the assets being constructed they are controlled by the customer and have no alternative use to the Group, with the Group having a right to payment for performance to date.

Generally, contracts identify various inter-linked activities required in the construction process. Revenue is recognised on the measured output of each process based on appraisals that are agreed with the customer on a regular basis.

Maintenance contract revenue

Services revenue is primarily generated from maintenance services supplied to roading assets owned by local or central Government in New Zealand and the South Pacific. This revenue also arises in respect of infrastructure assets previously constructed by the Group where maintenance was included in the contract. The service contracts are typically determined to have one single performance obligation which are significantly integrated and are fulfilled over time. There is no change to the revenue recognition methodology previously utilised.

Variable consideration

Revenue in relation to variations, such as a change in the scope of the contract, are only included in the transaction price when it is approved by the parties to the contract, the variation is enforceable, and the amount becomes highly probable. This is a higher threshold than is required by previous accounting standards.

Residential and Development division

Through the Residential division the Group derives income from the sale of completed houses, construction type projects for enabling or utilities works for large developments, and the sale of development sites surplus to Group requirements. Revenue is recognised when control passes to the customer for each type of transaction. House sales are commonly recognised at the time of settlement, when title passes to the customer and payment is received. Enabling or utilities works are recognised over time using a percentage of completion method. Land development sales are recognised in line with the requirements of the specific sale and purchase agreement.

Performance obligations vary between the types of transactions. The sale of a completed house from Group inventory to a customer is a single performance obligation, as houses are not constructed under contract from a customer. For works contracts and development sales, the division reviews the terms of the sale to determine whether the performance obligations are distinct and separately identifiable.

Other divisions

Sale of goods

The materials and distribution businesses within the Group recognise revenue when control of the goods has passed to the customer, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and there is a high probability that a significant reversal in the revenue recognised will not occur. Revenue is measured net of returns, trade discounts and volume rebates. The timing of the transfer of control varies depending on the individual terms of the sales agreement. For most sales, the transfer usually occurs when the product is delivered to the customer; however, for some international shipments the transfer occurs on loading the goods onto the relevant carrier at the port. Generally, for such products the customer has no right of return.

Impact on the interim financial statements

The Group has adopted NZ IFRS 15 Revenue from Contracts with Customers from 1 July 2018 which resulted in changes in accounting policies and adjustments to the amounts recognised in the interim and annual financial statements. In accordance with the transition provisions in NZ IFRS 15, the Group has adopted the new rules retrospectively using the modified approach and taken advantage of the applicable practical expendients possible, primarily regarding contract modifications. Under this approach, the comparative periods presented have not been restated, rather the cumulative effect of applying this standard has been applied to the opening balance of retained earnings. The main components of this cumulative effect are shown below.

	NZ$M
Retained earnings	
Retained earnings – as presented	894
Write-off of pre-contract costs previously capitalised	(1)
Restatement of variable consideration previously recognised	(1)
Restatement of timing of residential sales	(17)
Opening reserves – restated	875

Income Statement classifications

Selling and marketing expenses

During the period the Group has elected to change the classification of warehousing and freight costs for finished goods inventory. These costs are now disclosed in selling and marketing expenses which provides a more useful perspective on the underlying nature of these transactions. The comparative periods have also been restated below to improve comparability of these lines in the Income Statement.

Other gains and losses

The Group has historically reported smaller items of a one-off nature in a separate line on the Income Statement, described as 'other gains and losses'. This was in contrast to the presentation of expenses in the Income Statement by function and in addition to the disclosure of 'significant items' (refer to note 4). To provide clarity, the Group will continue to classify significant one-off events as significant items, with the remainder recognised according to their function in the Income Statement. The comparative information has been restated below to improve the comparability of the financial statements.

For the six month period ended 31 December 2017	Reported NZ$M	Selling and Marketing	Other gains and losses	Restated NZ$M
Cost of goods sold	(4,341)	202	(22)	(4,161)
Gross margin	548	202	(22)	728
Selling and marketing expenses	(470)	(202)		(672)
Other gains and losses	(22)		22	

For the year ended 30 June 2018	Reported NZ$M	Selling and Marketing	Other gains and losses	Restated NZ$M
Cost of goods sold	(7,775)	380	(28)	(7,423)
Gross margin	1,696	380	(28)	2,048
Selling and marketing expenses	(927)	(380)		(1,307)
Other gains and losses	(28)		28	

14. SUBSEQUENT EVENTS

On 20 February 2019, the directors declared a dividend of 8.0 cents per share, payable on 10 April 2019.

Review Report to the Shareholders of Fletcher Building Limited ("the Company") and its subsidiaries (together "the Group")

We have reviewed the consolidated interim financial statements on pages 28 to 53, which comprise the consolidated balance sheet as at 31 December 2018, consolidated income statement, consolidated statement of comprehensive income, consolidated statement of movements in equity and consolidated statement of cash flows for the period ended on that date, and a summary of significant accounting policies and other explanatory information.

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

Directors' Responsibilities

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

Reviewer's Responsibilities

Our responsibility is to express a conclusion on the consolidated interim financial statements based on our review. We conducted our review in accordance with NZ SRE 2410 *Review of Financial Statements Performed by the Independent Auditor of the Entity*. NZ SRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the consolidated interim financial statements, taken as a whole, are not prepared in all material respects, in accordance with New Zealand Equivalent to International Accounting Standard 34 *Interim Financial Reporting*. As the auditor of Fletcher Building Limited, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

Basis of Statement

A review of the consolidated interim financial statements in accordance with NZ SRE 2410 is a limited assurance engagement. The auditor performs procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand). Accordingly we do not express an audit opinion on the consolidated interim financial statements.

We have provided other services to the Group in relation to taxation and other assurance services. We have no other relationship, or interest in, the Group.

Conclusion

Based on our review nothing has come to our attention that causes us to believe that the consolidated interim financial statements, set out on pages 28 to 53, do not present fairly, in all material respects, the financial position of the Group as at 31 December 2018 and its financial performance and cash flows for the six month period ended on that date in accordance with New Zealand Equivalent to International Accounting Standard 34 *Interim Financial Reporting*.

Our review was completed on 20 February 2019 and our findings are expressed as at that date.

Ernst & Young

Chartered Accountants
Auckland

Interim Dividend

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	8.0000	8.0000	8.0000	8.0000
NZ imputation credits[2]				
NZ supplementary dividend[3]				
Australian franking credits[4]				
Gross dividend for NZ tax purposes	**8.0000**	**8.0000**	**8.0000**	**8.0000**
NZ tax (33%)[5]	(2.6400)			
NZ non-resident withholding tax (15%)[6]		(1.2000)	(1.2000)	(1.2000)
Net cash received after NZ tax	**5.3600**	**6.8000**	**6.8000**	**6.8000**
Australian tax (47% and 15%)[7]		(3.7600)	(1.2000)	
Reduced by offset for NZ non-resident withholding tax		1.2000	1.2000	
Less Australian franking credit offset				
Net cash dividend to shareholders after tax	**5.3600**	**4.2400**	**6.8000**	**6.8000**

Notes:

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. No imputation credits are attached to this dividend.
3. A supplementary dividend is only payable to non-New Zealand shareholders if the dividend is fully or partly imputed. It has the effect of removing the cost of New Zealand non-resident withholding tax (NRWT) on that part of the dividend which has imputation credits attached. As noted above, no imputation credits are attached to this dividend. Accordingly, no supplementary dividend is payable.
4. There are no Australian franking credits attached to this dividend and the conduit foreign income component is nil.
5. For all NZ resident shareholders who do not hold an exemption certificate, resident withholding tax (RWT) is required to be deducted at 33%. Accordingly, for those shareholders, a deduction of 2.64 cents per share will be made on the date of payment from the dividend declared of 8.0 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 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 plus franking credits	8.0000	8.0000
Gross dividend for Australian tax purposes	8.0000	8.0000
Australian tax	3.7600	1.2000

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.

Corporate Directory

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Martin Brydon
Tony Carter
Barbara Chapman
Rob McDonald
Doug McKay
Cathy Quinn
Steve Vamos

Chief Executive Officer
Ross Taylor

Chief Financial Officer
Bevan McKenzie

Group General Counsel and Company Secretary
Charles Bolt

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Registry
Computershare Investor Services Limited (Computershare) looks after our share register and is your first point of contact for any queries regarding your investment in Fletcher Building. You can view your investment portfolio, elect to enrol in our Dividend Reinvestment Plan, indicate your preference for electronic communications, supply your email address, change your details or update your payment instructions relating to Fletcher Building at any time by visiting the Computershare Investor Centre at www.investorcentre.com/nz.

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