

► Firth Concrete, New Zealand's leading supplier of ready mix concrete and masonry products, opened the country's most technologically-advanced masonry block plant at Hunua in South Auckland on November 29, 2017.

It can produce 50,000 blocks per day – four times the capacity of the previous East Tamaki plant. The plant was built on a former quarry, recycles 100 per cent of waste blocks onsite, and uses rainwater collected from the roof as its primary source of water. Raw materials come from GBC Winstone's quarry next door, also a Fletcher Building business.

COVER: New Firth Masonry Plant, Hunua Auckland

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When used in this half year review, 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 half year review.

You can obtain an electronic copy of this half year review at <http://www.fbu.com/investor-centre/reports-and-presentation/>

CEO Message

It was a privilege to join Fletcher Building as Chief Executive Officer during November 2017. Since that time, I have been firmly focused on understanding the business and the performance of our five Divisions, reviewing the provisioning in the Building + Interiors (B+I) business, and instigating a strategic review of the portfolio, to present a new strategy to the market in June.

Outside the challenges experienced in B+I, the broader business continues to perform to guidance.

Fletcher Building generated total revenue for the six months ended 31 December 2017 of \$4,889 million, which was six per cent higher than the prior comparable period.

As announced on February 14, we have taken further provisions for expected losses in B+I of \$486 million, leading to a total projected B+I EBIT loss of \$660 million in FY18. The HY18 result incorporates \$631 million of this expected loss.

When incorporating this B+I loss, operating earnings before significant items (EBIT) were a loss of \$322 million. Excluding B+I, EBIT was \$309 million, which was 13 per cent lower than the first half of FY17.

Net earnings before significant items were a loss of \$273 million, down from a profit of \$187 million in the prior corresponding period.

B+I PROVISIONING

The new provisioning announced on 14 February was informed by a review of 16 B+I projects, accounting for approximately 90 per cent of the construction backlog, and incorporating external input from independent construction experts and KPMG.

We are confident in our ability to complete the remaining B+I projects within these provisions for a number of reasons.

Firstly, B+I's projects are further progressed. As a result we have gained greater visibility and certainty of cost forecasts; we are significantly further advanced on procurement of important trade packages; and we have incorporated material price increases across trade finishing costs.



ROSS TAYLOR Chief Executive Officer

We have also allowed for significant time and cost contingencies; incorporated a less aggressive position on trade cost forecasts; based productivity forecasts on rates we are achieving now; and taken a less optimistic view on client claims and variations.

Our absolute focus is finishing our remaining B+I projects within these provisions for our shareholders, and to a high quality for our customers.

To achieve this, we have refocussed the entire B+I business on project delivery only, and have ceased all bidding on vertical construction projects in New Zealand. This will allow us to direct all resources in B+I to the completion of the current book.

FLETCHER BUILDING GROUP, EXCLUDING B+I

While it is pleasing to see an increase in sales revenues, operating earnings have decreased due to lower profits in the Construction Division, excluding B+I, as well as the Building Products Division.

In the Infrastructure and South Pacific businesses of our Construction Division we are rolling off major projects from FY17, and we are only in the early stages of new ones. In Building Products we have seen gross margins compress as a result of higher input costs and costs associated with increasing supply chain capacity to meet increased demand.

Earnings in the International Division are largely flat, while Distribution and Residential continue to post strong growth.

CASH FLOW AND DEBT PROFILE

Excluding the performance of B+I, cash flow generation in the rest of the Group has shown a good year-on-year improvement.

However, the projected B+I losses, and the resultant impact on EBITDA, resulted in a breach of Fletcher Building's financial covenants given to its commercial banking syndicate and US Private Placement (USPP) noteholders. We received a waiver from our commercial banking syndicate for the breach of covenants and we are in discussions with our USPP noteholders to obtain a similar waiver.

Our discussions with our lenders have been constructive and we plan to have all loans renegotiated by 31 March 2018. I want to assure shareholders that while the B+I provisions are large, they are phased over a number of years and do not impact our ability to trade with our customers or suppliers.

We believe that net debt will peak in the second half of the 2018 calendar year, and then reduce due to the strength of cashflows from the broader group.

SAFETY

For a business like Fletcher Building safety is a critical measure of our performance. During the first half of the 2018 financial year our Total Recordable Injury Frequency Rate declined from 6.9 to 6.6 incidents per million hours worked.

This result was supported by the introduction of a new, consistent EHS framework during the half, called Protect. This is now being embedded across the business – 90 per cent of our people have completed the initial training, with further programmes being rolled out to all front-line leaders and supervisors globally.

OUTLOOK

Fletcher Building continues to benefit from robust levels of residential activity in New Zealand, and significant infrastructure investment in both New Zealand and Australia.

Earnings guidance for the Group excluding B+I remains within the \$680 million to \$720 million range announced in October 2017. As confirmed previously, B+I's EBIT result is expected to be a loss of \$660 million, with \$631 million of this loss recognised in the first half.

In June we will update the market with the results of our strategic review of the business, and present a new five year strategy that will identify our biggest growth opportunities and a corporate and capital structure that best supports them.

I would like to take this opportunity to acknowledge the dedication and commitment of our people right across Fletcher Building, who remain committed to delivering for our shareholders.

I look forward to continuing to meet more of you in the coming months.



ROSS TAYLOR
CEO

AWARD WINNING / Fletcher Building won four awards at the Auckland Council Young at Heart Awards in November 2017: Innovative Youth Employer, Jobfest Exhibitor 2017, Youth Induction and Development Award, and the Youth Employment Programme Award.



POSITIVE FUTURES / Fletcher Building launched Switch Up, an online job hunting and application platform, in October 2017. It aims to help young people transitioning from school or unemployment into the workforce, and was created with the help of high school students.

Chairman's Message



SIR RALPH NORRIS Chairman

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

Testament to this, earnings guidance for the Fletcher Building group excluding B+I remains within the \$680 million to \$720 million range announced in October 2017.

It is regrettable that the underlying strength of Fletcher Building continues to be masked by losses in the Building + Interiors (B+I) business of the Construction Division, which will make a total projected EBIT loss of \$660 million in FY18.

B+I PROVISIONING

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

The provisions announced in February have allowed for significant time and cost contingencies, over and above those included in October.

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

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

The issues in B+I remain isolated to this one business – they are not systemic across Fletcher

Building, or the broader Construction Division, where the remaining three businesses continue to perform well.

DIVIDEND

In line with Fletcher Building's Dividend Policy the Board has determined that it will not declare an interim dividend for FY18. We will reassess the payment of a full-year dividend at the conclusion of the 2018 financial year.

BOARD RENEWAL

I understand our shareholders' expectation that as Chairman I must take responsibility for the issues we have experienced in B+I. In this context, on February 14 I announced that I will stand down as Chairman no later than the 2018 Annual Shareholders' Meeting, to allow an orderly transition and to complete the Board refresh I have commenced. Three new Directors and a new Chairman will be appointed in the coming months, and this process is well underway.

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

APPOINTMENT OF NEW CHIEF EXECUTIVE OFFICER

One of the most important duties of a Board is securing a high quality Chief Executive Officer. I am pleased we have been able to deliver this for Fletcher Building, with the appointment of Ross Taylor in November 2017.

Ross has led the review of B+I provisioning with rigour and the benefit of his considerable construction experience. He has also initiated a strategic review of Fletcher Building, with the aim of presenting a new strategy to the market in June. This will establish clear focus areas for the business and ensure we invest behind our best growth opportunities.

CULTURE AND ENGAGEMENT

We have over 20,000 people working across Fletcher Building and they are by far our greatest asset.

We have been investing for many years in organisational culture, which has seen people engagement continue to improve over time. This trend continued in FY17, despite the challenging year we experienced.

Investing in our people and capability, and in diversity and inclusion, remains a strategic priority for Fletcher Building.

CONCLUSION

The losses in B+I are deeply regrettable, and the Board and Management remain firmly focused on completing the remaining projects within these provisions.

With the strength of our broader business, the talent and resilience of our people, and a new focused strategy, I have every confidence Fletcher Building will once again deliver our shareholders the value they expect and deserve.



SIR RALPH NORRIS

Chairman

Building Products



OPERATING EARNINGS*

\$118m

2017: \$129 ▼ 9%

*Before significant items

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

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

The division's operating earnings before significant items were \$118 million. This reflects some contraction in gross margin as well as one-off redundancy costs of \$5 million in Fletcher Insulation and a fire event at a Humes site which reduced operating earnings by a further \$3 million.

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

- Increased energy costs of approximately \$6 million, particularly impacting GBC Winstone, Fletcher Insulation and the Iplex businesses;
- Adverse product mix change, particularly impacting GBC Winstone, Humes, and Iplex New Zealand;
- Transitional costs associated with commissioning of new plants in the Fletcher Insulation and Firth masonry businesses;

- Additional costs incurred in various businesses to alleviate capacity constraints and support current and expected increased volumes. This includes transitional costs associated with developing new quarry deposits and additional warehousing to meet increased current and expected future volumes of plasterboard.

The Concrete Pipes & Products businesses reported a reduction in operating earnings of 31% to \$18 million. Ready-mix concrete sales volumes increased by 4% but masonry sales volumes reduced by 8%, partially driven by production challenges of the transition to a new lower cost plant, which is now complete. Concrete pipe volumes were higher in both Australia and New Zealand.

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

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

Australian glasswool sales volumes increased by 7% contributing to revenue growth of 4%. Increased costs from redundancy payments and other transitional costs as the Sydney and Melbourne plants implement automation projects have reduced operating earnings to date but will result in lower costs in future periods.

The Plastic Pipes businesses reported \$11 million operating earnings, a \$4 million improvement on the prior corresponding period. Volumes in both Australia and New Zealand increased over the period, which were offset by substantial energy cost increases in Australia and New Zealand.

International



OPERATING EARNINGS

\$69m

2017: \$70M ▼ 1%

Laminex; Formica; Roof Tile Group

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

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

Competitive pressures both locally and from overseas remained strong although

the business in both Australia and New Zealand grew market share in key product categories while continuing its programme of operational efficiencies and new product initiatives, such as the introduction of new anti-finger print laminate. Operating earnings for Formica were up by 24% to \$42 million while gross revenue was up by 8%. In domestic currencies revenue was up by 9% on the prior corresponding period.

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

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

In Europe, gross revenue in domestic currencies was up by 4% driven by improvements in the UK, Spain and Germany. Operational performance continued to improve, although this was offset by an adverse shift in product mix with higher sales of lower margin thick laminate, and increased costs to support the improvements in market share.

Roof Tile Group operating earnings were a loss of \$4 million, a decrease of \$6 million while gross revenue was down 17%. This was the result of continued declines in Africa sales volume, down by 16%, while Japan revenue was down by 46% due to a key customer moving to a dual supply situation and the end of a special sales program for solar product. Other key global markets including Europe and Asia were up by 7%.

Distribution



OPERATING EARNINGS

\$89m

2017: \$84M ▲ 6%

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

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

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

performance in the prior year. Mico opened a new branch in Gore during the period and will open another branch in Auckland early in the second half of the year.

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

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

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

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

Construction



OPERATING EARNINGS/(LOSS)

\$ (619)m

2017: \$24M

Construction New Zealand; Construction South Pacific

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

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

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

B+I projects progressively complete, key resources will be redeployed into other businesses within the Division.

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

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

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

Residential and Land Development



OPERATING EARNINGS

\$47m

2017: \$30M ▲ 57%

NZ Residential; Land Development

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

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

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

The half year result included a \$12 million provision for a forecast loss on the Atlas Quarter Apartment project in Christchurch. This reflects a combination of lower than expected selling prices and cost escalations on the project, mainly due to seismic requirements and higher than expected construction market rates.

Excluding the impact of this provision, NZ Residential earnings were up \$17 million, or 68%, on the prior period.

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

The Christchurch market remained subdued with no growth in prices over the period.

Work commenced on the East Frame project, with an initial 112 units underway. The next anticipated stage will include a further 59 terrace homes, and the decision on further stages of this development will depend on discussions with Government on typologies and market conditions.

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

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

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

Funds employed in the division increased to \$562 million from \$541 million at 30 June 2017, reflecting an increase in work in progress in both the NZ Residential and Land Development businesses.

Financial Review

FUNDING

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

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

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

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

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

CASH FLOW

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

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

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

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

DIVIDEND

In line with the Company's dividend policy, the Board has determined that it will not declare an interim dividend.

Financial highlights (unaudited)

| | Dec 2017 | Dec 2016 | June 2017 |
|--|---------------|----------|-----------|
| Return on average funds (%) ⁽¹⁾ | (6.1) | 13.4 | 4.9 |
| Return on average equity (%) ⁽²⁾ | (9.8) | 12.5 | 2.5 |
| Return on average funds – before significant items (%) ⁽¹⁾ | (1.9) | 13.2 | 9.4 |
| Return on average equity – before significant items (%) ⁽²⁾ | (3.8) | 11.7 | 8.7 |
| Earnings per share – basic (cents) | (39.2) | 25.4 | 13.5 |
| Earnings per share – basic before significant items (cents) | (39.2) | 27.0 | 46.3 |
| Net tangible assets per share (\$) | 2.20 | 2.65 | 2.70 |
| Dividends per share (cents) | 0.0 | 20.0 | 39.0 |
| Gearing (%) ⁽³⁾ | 39.1 | 35.4 | 35.3 |

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

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

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

Consolidated income statement (unaudited)

For the six months ended 31 December 2017

| | Notes | Six months Dec 2017 NZ\$M | Six months Dec 2016 NZ\$M | Year ended June 2017 NZ\$M |
|---|-------|---------------------------------|---------------------------------|----------------------------------|
| Sales | | 4,889 | 4,613 | 9,399 |
| Cost of goods sold | | (4,341) | (3,498) | (7,319) |
| Gross margin | | 548 | 1,115 | 2,080 |
| Selling and marketing expenses | | (470) | (452) | (903) |
| Administration expenses | | (394) | (353) | (680) |
| Share of profits of associates and joint ventures | | 16 | 8 | 20 |
| Other gains and losses | 5 | (22) | (8) | 8 |
| Significant items | 4 | | (16) | (252) |
| Earnings before interest and taxation (EBIT) | | (322) | 294 | 273 |
| Funding costs | | (63) | (52) | (111) |
| Earnings/(loss) before taxation | | (385) | 242 | 162 |
| Taxation benefit/(expense) | 6 | 117 | (61) | (57) |
| Earnings/(loss) after taxation | | (268) | 181 | 105 |
| Earnings attributable to non-controlling interests | | (5) | (5) | (11) |
| Net earnings/(loss) attributable to the shareholders | | (273) | 176 | 94 |
| Net earnings per share (cents) | | | | |
| Basic | | (39.2) | 25.4 | 13.5 |
| Diluted | | (39.2) | 25.2 | 13.5 |
| Weighted average number of shares outstanding (millions of shares) | | | | |
| Basic | | 696 | 693 | 694 |
| Diluted | | 696 | 717 | 694 |
| Dividends declared per share (cents) | | 0.0 | 20.0 | 39.0 |

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 2017

| | Six months Dec 2017 NZ\$M | Six months Dec 2016 NZ\$M | Year ended June 2017 NZ\$M |
|---|---------------------------------|---------------------------------|----------------------------------|
| Net earnings/(loss) attributable to shareholders | (273) | 176 | 94 |
| Net earnings attributable to non-controlling interests | 5 | 5 | 11 |
| Net earnings/(loss) | (268) | 181 | 105 |
| Other comprehensive income | | | |
| Items that do not subsequently get reclassified to profit or loss: | | | |
| Movement in pension reserve | (3) | 2 | 44 |
| | (3) | 2 | 44 |
| Items that may be reclassified subsequently to profit or loss in the future: | | | |
| Movement in cash flow hedge reserve | 2 | (2) | (7) |
| Movement in currency translation reserve | 108 | (33) | (17) |
| | 110 | (35) | (24) |
| Other comprehensive income | 107 | (33) | 20 |
| Total comprehensive income/(loss) for the period | (161) | 148 | 125 |

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

Consolidated balance sheet (unaudited)

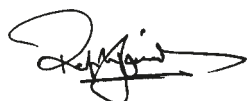
As at 31 December 2017

| | Notes | Dec 2017 NZ\$M | Dec 2016 NZ\$M | June 2017 NZ\$M |
|--|-------|-------------------|-------------------|--------------------|
| Assets | | | | |
| Current assets: | | | | |
| Cash and deposits | | 190 | 229 | 219 |
| Current tax assets | | 35 | 17 | 15 |
| Derivatives | | 6 | 12 | 8 |
| Debtors | | 1,468 | 1,319 | 1,525 |
| Inventories | | 1,800 | 1,735 | 1,652 |
| Total current assets | | 3,499 | 3,312 | 3,419 |
| Non-current assets: | | | | |
| Property, plant and equipment | | 2,247 | 2,139 | 2,214 |
| Goodwill | 9 | 1,099 | 1,228 | 1,069 |
| Intangible assets | | 639 | 640 | 609 |
| Investments in associates and joint ventures | | 154 | 142 | 146 |
| Retirement plan assets | | 72 | 40 | 71 |
| Other investments | | 1 | 2 | 2 |
| Derivatives | | 79 | 116 | 91 |
| Deferred tax assets | 6 | 182 | 13 | 52 |
| Total non-current assets | | 4,473 | 4,320 | 4,254 |
| Total assets | | 7,972 | 7,632 | 7,673 |

| | Notes | Dec 2017 NZ\$M | Dec 2016 NZ\$M | June 2017 NZ\$M |
|-------------------------------------|-------|-------------------|-------------------|--------------------|
| Liabilities | | | | |
| Current liabilities: | | | | |
| Creditors and accruals | | 1,369 | 1,270 | 1,406 |
| Provisions | | 61 | 69 | 70 |
| Current tax liabilities | | 36 | 21 | 30 |
| Derivatives | | 5 | 14 | 7 |
| Construction contracts | 8 | 732 | 28 | 214 |
| Borrowings | 7 | 1,701 | 314 | 269 |
| Total current liabilities | | 3,904 | 1,716 | 1,996 |
| Non-current liabilities: | | | | |
| Creditors and accruals | | 25 | 70 | 36 |
| Provisions | | 22 | 22 | 25 |
| Retirement plan liabilities | | 37 | 52 | 38 |
| Deferred tax liabilities | | 43 | 59 | 47 |
| Derivatives | | 39 | 29 | 48 |
| Borrowings | 7 | 607 | 1,956 | 1,903 |
| Total non-current liabilities | | 773 | 2,188 | 2,097 |
| Total liabilities | | 4,677 | 3,904 | 4,093 |
| Equity | | | | |
| Share capital | | 2,696 | 2,659 | 2,678 |
| Reserves | | 575 | 1,048 | 878 |
| Shareholders' funds | | 3,271 | 3,707 | 3,556 |
| Non-controlling interests | | 24 | 21 | 24 |
| Total equity | | 3,295 | 3,728 | 3,580 |
| Total liabilities and equity | | 7,972 | 7,632 | 7,673 |

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

On behalf of the Board, 21 February 2018



Sir Ralph Norris
Chairman of Directors



Bruce Hassall
Director

Consolidated statement of movements in equity (unaudited)

For the six months ended 31 December 2017

| | 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 2016 | 2,650 | 1,399 | 13 | 5 | (269) | (107) | 3,691 | 22 | 3,713 |
| Total comprehensive income for the period | | 176 | | (2) | (33) | 2 | 143 | 5 | 148 |
| Movement in non-controlling interests | | | | | | | | (6) | (6) |
| Issue of shares | 16 | | | | | | 16 | | 16 |
| Dividends paid to shareholders of the parent | | (139) | | | | | (139) | | (139) |
| Movement in share-based payment reserve | | | 3 | | | | 3 | | 3 |
| Movement in treasury stock | (7) | | | | | | (7) | | (7) |
| Total equity at 31 December 2016 | 2,659 | 1,436 | 16 | 3 | (302) | (105) | 3,707 | 21 | 3,728 |
| Total equity at 30 June 2016 | 2,650 | 1,399 | 13 | 5 | (269) | (107) | 3,691 | 22 | 3,713 |
| Total comprehensive income for the year | | 94 | | (7) | (17) | 44 | 114 | 11 | 125 |
| Movement in non-controlling interests | | | | | | | | (9) | (9) |
| Issue of shares | 31 | | | | | | 31 | | 31 |
| Dividends paid to shareholders of the parent | | (277) | | | | | (277) | | (277) |
| Movement in treasury stock | (3) | | | | | | (3) | | (3) |
| 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 | 0 | (178) | (66) | 3,271 | 24 | 3,295 |

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

Consolidated statement of cash flows (unaudited)

For the six months ended 31 December 2017

| | Six months Dec 2017 NZ\$M | Six months Dec 2016 NZ\$M | Year ended June 2017 NZ\$M |
|---|---------------------------------|---------------------------------|----------------------------------|
| Cash flow from operating activities | | | |
| Receipts from customers | 5,003 | 4,587 | 9,303 |
| Dividends received | 4 | 5 | 11 |
| Total received | 5,007 | 4,592 | 9,314 |
| Payments to suppliers, employees and other | 4,805 | 4,536 | 8,847 |
| Interest paid | 62 | 54 | 125 |
| Income tax paid | 30 | 69 | 99 |
| Total applied | 4,897 | 4,659 | 9,071 |
| Net cash from operating activities | 110 | (67) | 243 |
| Cash flow from investing activities | | | |
| Sale of property, plant and equipment | 14 | | 26 |
| Sale of investments | 1 | | 3 |
| Total received | 15 | | 29 |
| Purchase of property, plant and equipment and intangible assets | 131 | 127 | 319 |
| Purchase of subsidiaries/businesses | | 305 | 321 |
| (Cash)/net debt in subsidiaries acquired | | | (4) |
| Total applied | 131 | 432 | 636 |
| Net cash from investing activities | (116) | (432) | (607) |
| Cash flow from financing activities | | | |
| Net debt drawdown | | 506 | 476 |
| Issue of capital notes | 221 | | 35 |
| Total received | 221 | 506 | 511 |
| Net debt repayment | 117 | | |
| Repurchase of capital notes | | | 19 |
| Treasury stock purchased | | 3 | 3 |
| Distribution to non-controlling interests | 8 | 9 | 14 |
| Dividends | 123 | 123 | 246 |
| Total applied | 248 | 135 | 282 |
| Net cash from financing activities | (27) | 371 | 229 |
| Net movement in cash held | (33) | (128) | (135) |
| Add opening cash and liquid deposits | 219 | 356 | 356 |
| Effect of exchange rate changes on net cash | 4 | 1 | (2) |
| Closing cash and deposits | 190 | 229 | 219 |

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

Reconciliation of net earnings to net cash from operating activities (unaudited)

For the six months ended 31 December 2017

| | Six months Dec 2017 NZ\$M | Six months Dec 2016 NZ\$M | Year ended June 2017 NZ\$M |
|--|---------------------------------|---------------------------------|----------------------------------|
| Net earnings/(loss) | (273) | 176 | 94 |
| Earnings attributable to non-controlling interests | 5 | 5 | 11 |
| | (268) | 181 | 105 |
| Adjustment for items not involving cash: | | | |
| Depreciation, depletions and amortisation | 110 | 102 | 203 |
| Significant items | | 13 | 232 |
| Provisions and other adjustments | (16) | (43) | (66) |
| Taxation | (147) | (8) | (42) |
| (Gain)/loss on disposal of businesses and property, plant and equipment | | 1 | (13) |
| Non-cash adjustments | (53) | 65 | 314 |
| Cash flow from operations before net working capital movements | (321) | 246 | 419 |
| Net working capital movements | 431 | (313) | (176) |
| Net cash from operating activities | 110 | (67) | 243 |
| Net working capital movements | | | |
| Debtors | 98 | 74 | (103) |
| Inventories | (63) | (76) | (62) |
| Land and developments | (28) | (164) | (99) |
| Contracts | 502 | (99) | 74 |
| Creditors | (78) | (48) | 14 |
| | 431 | (313) | (176) |

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

Breakdown of financial performance (unaudited)

| | Six months Dec 2017 NZ\$M | Six months Dec 2016 NZ\$M | Year ended June 2017 NZ\$M |
|-------------------------------------|---------------------------------|---------------------------------|----------------------------------|
| Gross sales | | | |
| Building Products | 1,250 | 1,108 | 2,270 |
| International Businesses | 1,045 | 1,005 | 2,017 |
| Distribution | 1,757 | 1,644 | 3,287 |
| Residential & Land Development | 236 | 163 | 420 |
| Construction | 1,001 | 1,150 | 2,246 |
| Other | 5 | 5 | 9 |
| Total | 5,294 | 5,075 | 10,249 |
| Intercompany sales | (405) | (462) | (850) |
| External sales per income statement | 4,889 | 4,613 | 9,399 |
| External sales | | | |
| Building Products | 1,000 | 859 | 1,783 |
| International Businesses | 1,034 | 997 | 1,999 |
| Distribution | 1,665 | 1,559 | 3,112 |
| Residential & Land Development | 236 | 163 | 420 |
| Construction | 954 | 1,035 | 2,085 |
| External sales per income statement | 4,889 | 4,613 | 9,399 |
| Funds* | | | |
| Building Products | 1,713 | 1,686 | 1,666 |
| International Businesses | 2,055 | 1,948 | 1,938 |
| Distribution | 983 | 1,039 | 935 |
| Residential & Land Development | 562 | 477 | 541 |
| Construction | (330) | 366 | 174 |
| Other (including debt and taxation) | (1,688) | (1,788) | (1,674) |
| Total | 3,295 | 3,728 | 3,580 |

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

| | Six months Dec 2017 NZ\$M | Six months Dec 2016 NZ\$M | Year ended June 2017 NZ\$M |
|---|---------------------------------|---------------------------------|----------------------------------|
| EBIT before significant items | | | |
| Building Products | 118 | 129 | 267 |
| International Businesses | 69 | 70 | 169 |
| Distribution | 89 | 84 | 193 |
| Residential & Land Development | 47 | 30 | 130 |
| Construction | (619) | 24 | (204) |
| Other | (26) | (27) | (30) |
| Total | (322) | 310 | 525 |
| Significant items | - | (16) | (252) |
| Earnings before interest and taxation (EBIT) per income statement | (322) | 294 | 273 |

Supplementary Non-GAAP disclosures:

The following supplementary Non-GAAP disclosures have been made to provide additional, useful information.

| | | | |
|--|--------------|------|-------|
| Earnings before interest and taxation (EBIT) as reported | (322) | 294 | 273 |
| Buildings + Interiors ("B+I") operating earnings | (631) | (47) | (292) |
| Earnings before interest and taxation (EBIT) excluding B+I | 309 | 341 | 565 |

Notes to the consolidated 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 2017 annual report available on the Group website at www.fbu.com.

2. GOING CONCERN

As at 31 December 2017, the Group was in breach of certain covenants in relation to the Bank loans under its Syndicated Facility Agreement and in relation to its Private Placement debt (together 'borrowings'). This breach is an event of default under the agreements governing those borrowings.

As a result of the breach, \$434m of the Group's Bank loans balance and \$1,150m of the Group's Private Placement debt balance have been reclassified to current liabilities (Refer Note 7) as the Group did not have the unconditional right to defer repayment of these borrowings at 31 December 2017.

On 13 February 2018, the lenders under the Syndicated Facility Agreement provided a waiver in respect of the 31 December 2017 covenant breach and agreed, subject to various conditions, to continue to make available funding of \$325 million until 31 March 2018. The terms of that waiver require the Group to agree revised terms under the Syndicated Facility Agreement by 31 March 2018, otherwise

the Group would then be in breach of the waiver. A similar waiver to that which has been obtained from the lenders under the Syndicated Facility Agreement has been sought from the holders of the Group's Private Placement debt.

The Group is now working with its funders to agree revised terms for the agreements governing the borrowings such that the borrowings are not required to be repaid within the next 12 months. The Group is targeting the end of March 2018 to complete this.

In the event that the Group is unable to agree revised terms in relation to the Bank loans and the Private Placement debt, the Group would also consider alternative borrowing arrangements and/or potential recapitalisation options.

In preparing the interim financial statements, the Directors have assessed the Group's ability to continue as a going concern. In making this assessment, the Directors have considered the level of debt and facilities the Group had at 31 December 2017, the status of the Group's discussions with its funders (including the waiver obtained from lenders under the Syndicated Facility Agreement in respect of the 31 December 2017 covenant breach), the Group's forecast financial results for the next 12 months subsequent to the date of issue of these interim financial statements and the alternative funding options for the Group noted above.

Whilst material uncertainties exist, the Directors consider that there is a reasonable expectation that revised terms will be agreed with the funders of the Bank loans and the Private Placement debt, such that funding will be available to the Group to enable it to continue to meet its liabilities as they fall due. Taking this into account and the expected financial performance of the Group and the positive operating cash flows of the Group (inclusive of the cash flows relating to the Building and Interiors business unit), it is the considered view of the Directors that the Group is a going concern.

The Directors do, however, acknowledge that if the Group is unable to obtain all applicable waivers, or successfully renegotiate revised terms with the funders of the Bank loans and the Private Placement debt or secure alternative sources of funding to enable the repayment of the Group's current borrowings, then the going concern assumption may not be valid, the consequence being the Group may be unable to realise the value in its assets and discharge its liabilities in the normal course of business.

These financial statements do not include any adjustments that may be made to reflect the position should the Group be unable to continue as a going concern. Such adjustments may include realising assets at amounts other than those at which they are recorded in the financial statements. In addition, the Group may have to provide for further liabilities that may arise and to reclassify certain non-current assets and other liabilities as current.

3. 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 Group adopting NZ IFRS 9 (2014) Financial Instruments ("NZ IFRS 9") from 1 July 2017.

NZ IFRS 9 sets out new requirements for classification and measurement, impairment and hedge accounting for financial assets and financial liabilities. It replaces NZ IAS 39 Financial Instruments: Recognition and Measurement ("NZ IAS 39"). The impact of adopting NZ IFRS 9 is summarised below:

- NZ IFRS 9 introduces new classification and measurement requirements for financial assets and liabilities that are within the scope of NZ IAS 39. There have been no changes to the classification or carrying amounts of financial assets and financial liabilities in the statement of financial position under NZ IFRS 9.
- The hedge accounting rules in NZ IFRS 9 align hedge accounting more closely with the Group's risk management activities and the effectiveness test has been replaced with the principle of an economic relationship. The adoption of NZ IFRS 9 did not result in significant changes to the Group's hedge accounting relationships. The Group has elected to apply the hedge accounting requirements on a retrospective basis from the date of initial application where permitted under NZ IFRS 9.
- The NZ IFRS 9 impairment requirements are based on an expected credit loss model, replacing the incurred loss methodology under NZ IAS 39. The Group has applied the simplified approach for trade and other receivables, with the impact of NZ IFRS 9 being immaterial.

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 15 Revenue from Contracts with Customers

was issued on 3 July 2014 and addresses recognition and measurement of revenue. It replaces the separate models for goods, services and construction contracts currently included in *IAS 11 Construction Contracts* and *IAS 18 Revenue*. It is required to be adopted by the Group in the financial statements for the year ending 30 June 2019.

Management are currently completing an assessment of the impact of this standard. It is expected that our Construction and Residential and Land divisions will be most impacted by the new standard due to the significant number and variety of customer contracts that they have.

NZ IFRS 16 Leases, was issued on 11 February 2016 and requires all leases to be recognised on the balance sheet. Currently, under *IAS 17 Leases* only those leases categorised as finance leases are required to be recognised on the balance sheet. NZ IFRS 16 is required to be adopted by the Group in the financial statements for the year ending 30 June 2020.

Management are currently conducting an assessment of the impact of this standard. As the majority of businesses in the Group have leases, the impact of NZ IFRS 16 on the Group financial statements is expected to be significant.

4. SIGNIFICANT ITEMS

Six months ended 31 December 2017

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

Six months ended 31 December 2016

| | Business acquisition expenses ⁽¹⁾ NZ\$M | Site closure costs ⁽²⁾ NZ\$M | Total NZ\$M |
|--|---|---|----------------|
| Fletcher Insulation | | (10) | (10) |
| Rocla Products | | (5) | (5) |
| Corporate | (1) | | (1) |
| Total significant items before taxation | (1) | (15) | (16) |
| Tax benefit/(charge) on above items | | 5 | 5 |
| Total significant items after taxation | (1) | (10) | (11) |

- (1) On 29 July 2016, the Group acquired Higgins Group Holdings Limited ("Higgins"). Costs of \$1 million associated with the transaction were incurred in the period.
- (2) In the six months ended 31 December 2016 the Group recognised a charge of \$15 million for costs associated with site closures:
 - \$10 million relating to the closure of Fletcher Insulation's Homebush site in New South Wales announced in December 2016; and
 - \$5 million relating to two site closures in the Rocla Products business.

Year ended 30 June 2017

| | Business acquisition expenses ⁽¹⁾ NZ\$M | Site closure costs ⁽²⁾ NZ\$M | Impairments ⁽³⁾ NZ\$M | Other ⁽⁴⁾ NZ\$M | Total NZ\$M |
|--|---|---|-------------------------------------|-------------------------------|----------------|
| Building Products | | (17) | (69) | (12) | (98) |
| Distribution | | | (153) | | (153) |
| Corporate | (1) | | | | (1) |
| Total significant items before taxation | (1) | (17) | (222) | (12) | (252) |
| Tax benefit / (charge) on above items | | 5 | 16 | 4 | 25 |
| Total significant items after taxation | (1) | (12) | (206) | (8) | (227) |

- (1) On 29 July 2016, the Group acquired Higgins Group Holdings Limited ("Higgins"). Costs of \$1 million associated with the transaction were incurred in the year.
- (2) The Group recognised a charge of \$17 million for costs associated with site closures:
- \$10 million relating to the closure of Fletcher Insulation's Homebush site in New South Wales; and
 - \$7 million relating to two site closures in the Rocla Products business.
- (3) During the year, the Group recognised a \$222 million impairment charge, relating to businesses where the carrying amount exceeded the recoverable amount:
- \$69 million relating to Iplex Australia where goodwill and brands were impaired; Offsetting the impairment of brands is an \$11 million reversal of the associated deferred tax liability through tax expense;
 - \$153 million relating to Tradelink where goodwill and other intangibles were impaired.
- (4) The Group recognised a charge of \$12 million relating to the costs associated with prolonged industrial action during the year at a Fletcher Insulation site in Australia.

5. OTHER GAINS AND LOSSES

| | Six months Dec 2017 NZ\$M | Six months Dec 2016 NZ\$M | Year ended June 2017 NZ\$M |
|---|---------------------------------|---------------------------------|----------------------------------|
| Other gains and losses include the following: | | | |
| Gain on sale of assets | | | 13 |
| Redundancies and restructuring costs | (8) | (7) | (8) |
| Other | (14) | (1) | 3 |
| | (22) | (8) | 8 |

6. TAXATION EXPENSE

| | Six months Dec 2017 NZ\$M | Six months Dec 2016 NZ\$M | Year ended June 2017 NZ\$M |
|--|---------------------------------|---------------------------------|----------------------------------|
| Earnings/(loss) before taxation: | (385) | 242 | 162 |
| Taxation at 28 cents per dollar | (108) | 68 | 45 |
| Adjusted for: | | | |
| Higher/(lower) tax rate in overseas jurisdictions | (1) | (1) | (4) |
| Non assessable income | (6) | (1) | (20) |
| Non deductible expenses | 2 | 1 | 50 |
| Utilisation of previous unrecognised tax losses | | (1) | |
| Tax in respect of prior years | | | (1) |
| Tax losses not recognised | 3 | 5 | 5 |
| Other permanent differences | (7) | (10) | (18) |
| | (117) | 61 | 57 |
| Tax (benefit)/expense on earnings before significant items | (117) | 66 | 82 |
| Tax benefit on significant items | | (5) | (25) |
| | (117) | 61 | 57 |

The deferred tax asset balance of \$182 million at 31 December 2017 largely comprises construction losses provided for in the 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. BORROWINGS

| | Dec 2017 NZ\$M | Dec 2016 NZ\$M | June 2017 NZ\$M |
|---|-------------------|-------------------|--------------------|
| Bank loans | 434 | | |
| Capital notes | 71 | 68 | 71 |
| Private placements | 1,150 | 137 | 139 |
| Other loans | 46 | 109 | 59 |
| Borrowings – current | 1,701 | 314 | 269 |
| Bank loans | | 415 | 389 |
| Capital notes | 550 | 316 | 329 |
| Private placements | | 1,160 | 1,123 |
| Other loans | 57 | 65 | 62 |
| Borrowings – non-current | 607 | 1,956 | 1,903 |
| Carrying value of borrowings (as per balance sheet) | 2,308 | 2,270 | 2,172 |
| Less: impact of debt hedging activities (included within derivatives) | (48) | (79) | (42) |
| Borrowings after impact of hedging activities | 2,260 | 2,191 | 2,130 |
| Add/(Less): fair value hedge adjustment included in borrowings | 13 | (1) | |
| Borrowings excluding derivative adjustments | 2,273 | 2,190 | 2,130 |
| Net Debt | | | |
| Cash and cash equivalents | 190 | 229 | 219 |
| Current borrowings | (1,701) | (314) | (269) |
| Non-current borrowings | (607) | (1,956) | (1,903) |
| Net Debt | (2,118) | (2,041) | (1,953) |

As a result of the breach of covenants at 31 December 2017, the Bank loans balance of \$434 million and Private placements balance of \$1,150 million have been reclassified from non-current to current liabilities. Further information in respect of the Group's subsequent discussions with its funders has been included in Note 2.

8. CONSTRUCTION CONTRACTS

| | Dec 2017 NZ\$M | Dec 2016 NZ\$M | June 2017 NZ\$M |
|--|-------------------|-------------------|--------------------|
| Gross construction work in progress plus margin to date/less provisions for losses | 5,603 | 3,903 | 5,877 |
| Progress billings | (6,335) | (3,931) | (6,091) |
| | (732) | (28) | (214) |
| Construction contracts with cost and margin in advance of billings | 12 | 86 | 62 |
| Construction contracts with billings in advance of cost and margin | (115) | (91) | (114) |
| Provision for future net cash outflows on loss-making contracts | (629) | (23) | (162) |
| Carrying amount at the end of the period | (732) | (28) | (214) |

Included in sales is \$954 million of contract revenue (December 2016: \$1,031 million, June 2017: \$2,081 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 include recovery of pre-contract costs, assessment of future costs following changes in the scope of work, contract programmes, maintenance and defects liabilities, performance bonuses or penalties and changes in costs in determining the amount of revenue and margin to be recognised at each reporting date. Recognition of additional revenues which flow from contract variations and claims, which at reporting date may have not yet been presented to or accepted and approved by customers, also requires significant judgement.

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 2017:

| | Business Unit | Percentage of completion (% cost) | Forecast completion |
|--|----------------------------|-----------------------------------|---------------------|
| Commercial Bay – Fixed price contract | B+I | 39% | 2019 |
| NZICC – Guaranteed maximum price and fixed price contract | B+I | 22% | 2019 |
| Puhoi to Warkworth – Fixed price contract (Public Private Partnership) | Infrastructure | 21% | 2021 |
| Auckland East Prison – Fixed price contract (Public Private Partnership) | B+I | 85% | 2018 |
| Hamilton City Edge Expressway – Alliance contract | Infrastructure/ Higgins | 42% | 2020 |
| Justice and Emergency Precinct – Fixed price contract | B+I | 99% | 2018 |

Revenue Backlog by Business Unit as at 31 December 2017:

| | Current Revenue Backlog | Top 5 projects as a % of Revenue Backlog |
|----------------------|-------------------------|--|
| Building + Interiors | 926 | 61% |
| Infrastructure | 682 | 84% |
| Higgins | 648 | 17% |
| South Pacific | 61 | 79% |
| | 2,317 | N/A |

9. GOODWILL

The Group performs a detailed impairment assessment annually and considers indicators of impairment at each interim reporting date. At 31 December 2017, the Group performed a review of indicators of impairment for all significant cash-generating units. These reviews did not give rise to any impairment charges.

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).

Financial instruments measured and recognised at fair value are derivatives that are designated in hedge relationships. The fair value of base metal price swaps is based on the quoted market prices of those instruments and are measured under level 2. All other 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 are 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 by discounting future principal and interest cash flows at current market interest rates plus an estimated credit margin that are available for similar financial instruments. The interest rates across all currencies used to discount future principal and interest cash flows are between 1.70% and 7.14% (December 2016: 1.62% and 7.48%; June 2017: 1.69% and 9.98%) including margins.

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 2017 annual report.

Shareholder Information

Shareholder enquiries

Changes of address, payment instructions and investment portfolios can be viewed and updated online: **investorcentre.com/nz**

Enquiries may be addressed to the Share Registrar, Computershare Investor Services:

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