



Update on International Convention Centre and Group Trading

Auckland, 16 December 2022: Fletcher Building today announced an update on the New Zealand International Convention Centre and Hobson Street Hotel project (“NZICC”). Despite good progress on site, the complexity of the rebuild means costs are now expected to exceed insurance proceeds on NZICC. This has resulted in an additional \$150 million provision for costs to complete the project.

Three years on from the fire that caused extensive damage in October 2019, the project team continues to make good progress in rebuilding NZICC. All demolition work is complete; remediation of the steelwork is well advanced; roof installation has commenced; and the first two car park levels are now completed and expected to be handed over to the client, SkyCity, later this month. Procurement is well-advanced and key program milestones are being met.

Based on this progress, Fletcher Building continues to expect that the NZICC project will be completed in early 2025 or better – in line with its previous guidance. Further, the project insurance policies continue to respond in line with expectations.

However, as the damage assessments and the scope and methodology of the rebuild have been better understood, the cost of the remediation is now expected to exceed insurance coverage on the project. There are three main reasons for the increase: (1) significant complexity of the remediation approach and rebuild environment, particularly due to remediation of the water damage and mould that occurred following the fire; (2) as a result of this complexity, a greater number of project resources being required to complete the rebuild works; and (3) inflation of labour, trade and material costs, as is being experienced across the broader construction industry. Insurances that were put in place on the project had not envisaged the combination of the rebuild complexity, earlier COVID delays, and cost escalations that have been experienced.

While we will pursue all available opportunities to improve both the revenue and costs on the NZICC project, Fletcher Building has decided to make a further provision to complete the project of \$150 million. The cash impacts of the additional costs will not be immediate and are expected to flow through calendar 2023 and 2024.

Subject to the Company’s normal sign-off processes for its half-year 2023 financial statements, it is expected that the additional provision on NZICC will be classified as a Significant Item in the Company’s half-year 2023 financial statements. This expected treatment is based on NZICC being Fletcher Building’s last project in the now discontinued vertical building sector and not part of the Group’s ongoing operations.

On NZICC, Ross Taylor said: “It is disappointing we require further provisions, which are the result of the significant complexity of the project rebuild. However, NZICC is Fletcher Construction’s last project in the vertical sector, as a decision to fully exit this sector was made in 2021.”

On Group trading, CEO Ross Taylor said: “Trading across the Group remains consistent with the update provided at the Annual Shareholders’ Meeting in October. In our products and distribution divisions, sales volumes are broadly in line with expectations – slightly softer in the civil sector, however robust in the residential finishing trades and the commercial sector. Input cost inflation is being managed effectively, and gross margins are slightly ahead of expectations – offsetting

some of the softness in the civil sector. It is particularly pleasing to see our Australian business continuing to improve despite the first half weather and transport challenges, and we expect the EBIT margin in Australia for the first half to be 5%, on similar volumes to last year. Across all of our products and distribution divisions, we continue to watch lead indicators closely, and have a clear playbook if activity softens in late FY23 or into FY24.”

“In our Residential and Development division, house prices and margins are in line with expectations at c.10% below the peak in late 2021. House sales volumes remain lower than plan, with strong customer visitation levels into Fletcher Living show-homes, but with lower conversion rates. In certain developments, we have therefore slowed our build rates, and we have not been taking on new land for some time, to ensure we manage working capital tightly.”

“Based on this, we reconfirm our FY23 EBIT target (excluding Significant Items) of \$855 million+. Our balance sheet continues to be in a strong position, with Group leverage expected to be at the lower end of the Group’s 1x-2x target range through FY23.”

Conference call to be held today

Fletcher Building management will host a Q&A briefing for investors and analysts **today at 10:30am NZDT / 8:30am AEDT** to discuss today’s announcements. Participants can register for the conference by navigating to the following link:

<https://s1.c-conf.com/diamondpass/10027801-gdtw53.html>

Upon registration you will be provided with the dial in number, passcode, and your unique access PIN. To join the conference simply dial the number and enter the passcode followed by your PIN, and you will join the conference instantly.

A replay facility will be available after the conference call:

Australia: 1800 265 784 / +61 7 3107 6325

New Zealand: 0800 886 078

Hong Kong: 800 930 639

Singapore: 800 101 3223

UK: 0800 031 4295

US/Canada: 1855 883 1031

Replay PIN: 10027801

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