

NEWS RELEASE



Fletcher Building announces further losses in Building + Interiors while maintaining earnings guidance for the remaining Fletcher Building Group

- **Fletcher Building announces further provisions for expected losses in its Buildings + Interiors business of \$486 million, leading to a total projected B+I EBIT loss of \$660 million in FY18**
- **Expected FY18 EBIT for the Fletcher Building Group excluding B+I remains \$680 million to \$720 million**
- **B+I business refocused solely on delivery of remaining projects – bidding for all vertical construction in New Zealand to cease**
- **Waiver received from commercial banking syndicate following breach of covenants**
- **No interim dividend payment for HY18**
- **Fletcher Building Chairman announces he will step down no later than the 2018 Annual Shareholders Meeting**

Auckland, February 14 2018: Following a review of projects in the Building + Interiors (B+I) business of the Construction Division, Fletcher Building today announced a further provision of \$486 million for project losses.

Combined with provisions previously announced in October, as well as overheads and other costs, this leads to a projected \$660 million EBIT loss for B+I in FY18.

Earnings guidance for the Fletcher Building group excluding B+I remains \$680 million to \$720 million as announced in October.

Fletcher Building CEO Ross Taylor said the new provisioning was informed by a review of 16 B+I projects, accounting for approximately 90% of the construction backlog, and incorporating external input from independent construction experts and KPMG.

“The provisions we have announced today are informed by a considerable amount of further project analysis, and while we continue to target agreed completion dates across the portfolio, we have factored in significant cost and timeline contingencies.

“Our absolute focus is finishing our remaining B+I projects within these provisions and to a high quality for our customers. To achieve this, we are refocussing the entire B+I business on project delivery only, and ceasing 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.

“While our broader construction businesses continue to benefit from favourable market conditions and strong growth, the B+I market sector remains characterised by high contract risk and low margins. Unless these dynamics change we will no longer work in this sector.”

The projected B+I EBIT loss has resulted in a breach of Fletcher Building’s financial covenants given to its commercial banking syndicate and US Private Placement (USPP) noteholders. However, the strength of the broader business and the phasing of the cash impact of the B+I provisions means the Company remains well capitalised and solvent.

“We have strong and predictable cash flows across the Fletcher Building group. 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 or pay our bills.”

In line with the Company’s Dividend Policy the Board has determined that it will not be declaring an HY18 dividend.

“Our discussions with the banks have been constructive. We have received a waiver from our commercial banking syndicate for the breach of covenants and they have confirmed the availability of continued funding while we renegotiate terms. We have also commenced discussions with our USPP noteholders to obtain a similar waiver for the covenant breach. We are targeting to successfully complete renegotiations with all lenders by the end of March.”

Commenting on the reasons for the additional provisions, Taylor said there are many nuances by project, but three core drivers. “Following further project reviews we have taken a more pragmatic view on program delivery and resulting cost contingencies. While we will pursue our contract entitlements vigorously, we have also taken a less optimistic view on client claims and variations. And lastly, since October we have seen further material price escalation across trade finishing costs, which have now been incorporated into cost forecasts.”

In a separate statement made today Fletcher Building Chairman Sir Ralph Norris confirmed he will step down as Chairman no later than the 2018 Annual Shareholders Meeting, allowing an orderly transition to a new Chairman and the completion of the Board refresh process already commenced.

#Ends

Further background:

Q. Which 16 projects were reviewed?

A. The Justice and Emergency Services Precinct and the New Zealand International Convention Centre (NZICC) projects continue to be the main contributors to the losses. In addition to these two projects the Company reviewed Commercial Bay, Auckland East Prison, Auckland Airport, Christchurch Airport Hotel, Wellington Airport Carpark, and a remaining group of smaller projects.

Q. Which projects did KPMG review?

A. In the latest review KPMG focused solely on B+I projects, including the two previously reviewed – NZICC and Commercial Bay – as well as the Christchurch Airport Hotel, Auckland East Prison and Auckland Airport projects.

Q. Does this mean Commercial Bay is now loss making?

A. We continue to target a profitable completion of this project, however given it has a long way to go we have provisioned for contingencies.

Q. Are the timelines for NZICC or Commercial Bay impacted by this announcement?

A. We continue to target the completion dates we have agreed with our customers, but we have provisioned for significant cost and timeline contingencies.

Q. When will the Justice Precinct complete?

A. The project is 99% complete and the client is occupying the building. We expect practical completion to be awarded at the end of February.

Q. Does the end of bidding on vertical construction projects mean the Fletcher Construction Company will close?

A. No. The Fletcher Construction Company includes four businesses – B+I, Infrastructure, Higgins and South Pacific. The only business impacted by this announcement is B+I.

Q. Will Fletcher Building ever consider bidding on a vertical construction project in the future?

A. We have made the decision to refocus B+I solely on project completion, to ensure our resources are completely focused on this task. While the B+I market sector remains characterised by high contract risk and low margins we will no longer participate. If these market dynamics change in the future we would reconsider our position.

Q. Does this change impact residential construction or infrastructure?

A. No. Our Residential Division will continue to operate as it does today. Likewise, our Infrastructure business will continue to complete existing projects and bid for new ones. The infrastructure sector benefits from more appropriate margins, better contract conditions, and alliance models that reduce risk. As our B+I projects complete we will redeploy key talent to these growth opportunities.

Q. How is Fletcher Building's debt structured?

A. Funding facilities are: capital notes (\$622m), US Private Placement (\$1.13b) a commercial banking syndicate (\$1.27b) and other loans (\$103m).

Q. Which of these debt structures has FB breached covenants on?

A. USPP and the commercial banking syndicate.

Q. Which specific metrics have been breached?

A. Senior Net Debt to EBITDA, EBIT to Senior Interest, EBIT to Total Interest and Guaranteeing Group EBITDA.

Q. What happens if you do not agree new terms with your lenders by March 31 2018?

A. In consideration of the waiver, we have agreed to negotiate changes to our agreements with our lenders by 31 March. If we do not agree new terms by 31 March, we would then be in breach of the terms of our waiver. This would be an event of default with our commercial banking syndicate. However, the banks have moved quickly to grant us the waiver and we expect discussions to continue to be constructive.

Q. Which banks are included in the commercial banking syndicate?

A. ANZ Bank New Zealand Limited, The Bank of Tokyo-Mitsubishi UFJ Ltd, Bank of New Zealand, Commonwealth Bank of Australia, Citibank N.A., The Hong Kong and Shanghai Banking Corporation Limited, Westpac New Zealand Limited, Bank of China and China Construction Bank.

Teleconference:

Fletcher Building CEO Ross Taylor will host a teleconference call for investors and analysts at **1.00pm NZT today (11.00am AEST)** to provide more detail on this announcement. Dial in details are set out below.

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