NEWS RELEASE

Fletcher Building

Fletcher Building announces FY18 earnings guidance

Auckland, October 25 2017: Fletcher Building has announced earnings guidance for FY18 in the Chairman's address at its 2017 Annual Shareholders' Meeting.

Given the uncertainty in estimating the final outcomes of the major Buildings and Interiors (B+I) projects, and the resulting impact on in-year earnings, Fletcher Building has separated guidance of the B+I business from the remainder of the Group's earnings.

FY18 Earnings before interest and tax excluding significant items (EBIT):

- **Fletcher Building excluding B+I: $680 million to $720 million**
- **B+I: estimated loss of $160 million**

Commenting on the earnings guidance Chairman Sir Ralph Norris said: "A considerable amount of remedial action has taken place in the past year by the Board, the Executive Team and the Construction Leadership Team to address the issues we have experienced in our B+I business. We have improved business and project governance; improved systems and processes; improved the construction and commercial capability of the Division; and introduced more commercial rigour around the bidding process.

"I strongly believe that these actions will address the issues we have experienced over the long term by ensuring our approach to bidding for, contracting and managing future projects is greatly enhanced. However, these measures will only go so far in altering the trajectory of our legacy projects that commenced some time ago.

"I want to offer my personal apology to our shareholders. Mistakes have been made and responsibility ultimately rests with the Board. As we stated at our full year results briefings, we fully accept this responsibility.

"Our focus now is on delivering these legacy projects to the highest quality for our clients, and mitigating future losses. We recognise our shareholders will want transparency over the remaining risk profile attached to our B+I project pipeline."

Earnings guidance for the B+I business reflects an updated management review of the portfolio of B+I projects. The estimated loss of $160 million in FY18 comprises additional provisions of approximately $125 million for expected B+I project losses and approximately $35 million of expected B+I overhead costs in the current year.

The provision for additional B+I project losses has been informed, in part, by a report by KPMG, which was recently commissioned by management to augment existing governance processes in the Construction Division. The KPMG review covered two B+I projects, New Zealand International Convention Centre (NZICC) and Commercial Bay, and two Infrastructure projects, Puhoi to Warkworth and Hamilton City Edge Expressway.

In three out of the four projects reviewed, being Commercial Bay and the two projects in the Infrastructure business, KPMG's forecast outcome is broadly in line with management's expectations – risks and opportunities exist on each project, however final margins in all three cases are expected to be positive. The key issues identified relate to the NZICC project, which has already been identified as a major contributor to the Company's losses in FY17.

The expected additional losses on NZICC, plus further costs being incurred in the close out of the Justice Precinct project, represent approximately 80% of the $125 million provision announced today.

There is acknowledgement that there is uncertainty with respect to large B+I projects that still have some time to complete. In recognition of this, Fletcher Building intends to provide regular updates to shareholders on performance of the B+I business and progress on the key projects.

Earnings guidance for the remainder of the Group is informed by trading results across all of Fletcher Building's divisions for the first quarter of FY18, and the current outlook for the remainder of the financial year.

Compared to FY17, the Company expects the key differences in earnings to be: normalisation of corporate costs from $29 million in FY17 to between $50 million and $60 million in FY18; a reduction of Land Development earnings from $54 million in FY17 to more towards the previously stated target of $25 million per annum; and lower earnings for the Construction Division excluding B+I, notably due to a limited backlog in South Pacific and major projects in the Infrastructure business being at an early stage of completion. The impact of the lower earnings from South Pacific and Infrastructure will be felt particularly in the first half of FY18 and may result in a decline in first half earnings for the Group (excluding B+I) versus the prior comparable period.

Teleconference

Fletcher Building Chairman Sir Ralph Norris will host a teleconference call for all investors and analysts at 3.30pm NZ time today (1.30pm AEST) to provide some more detail on this announcement. Dial in details are set out at the bottom of the document.

Q&A

Q. Which projects have been responsible for the majority of Fletcher Building's losses in Building + Interiors?
A. The two major projects on which we have incurred the majority of our losses are the Justice Precinct in Christchurch and New Zealand International Convention Centre (NZICC) in Auckland. We have not named them previously because we have strict confidentiality clauses in our contracts, and we take our obligations to our clients very seriously. Unilaterally deciding to ignore our contractual requirements would simply put at risk our client relationships and our ability to win work in the future – which is not in the best interests of our shareholders.

However, in the face of these extenuating circumstances and shareholder demand, we have been able to gain agreement from our clients to make an exception in this instance. This is an exception to the rule, and we will continue to uphold our contractual requirements for confidentiality on all other matters pertaining to our projects, both now and in the future.

Losses on NZICC and the Justice Precinct represented approximately two-thirds of the $292m EBIT loss recorded by B+I in FY17. Additional expected losses on these projects comprise approximately 80% of the additional $125m provision announced today.

Q. Why did you not review the Justice Precinct project as part of the KPMG review?
A. We asked KPMG to review the two largest B+I projects that still have a significant amount of work left to complete, namely NZICC and Commercial Bay. We considered that any recommendations coming out of the KPMG review would be most useful on projects that still had a significant amount of time left to run.

Q. Why did you not review every project in B+I?
A. KPMG reviewed the NZICC and Commercial Bay projects as combined they represent approximately 60% of the current B+I backlog, and given their size and timing of delivery, reflect the key areas of risk in the portfolio. The remaining 40% of the backlog represents approximately 60 other, mainly smaller projects, which have a more limited risk profile.

Q. Are you going to make the KPMG report public?
A. No, the KPMG report will not be made public. The report is an internal management document and formed one of a number of inputs into the Board's decision around setting earnings guidance.

Q. Why were the issues leading to the revised guidance not identified in August when the FY17 results were reported?
A. Since August there has been an improvement in the information provided to management on the status and the key issues on the NZICC project, which is strongly linked to the new project team put in place in recent months. This

has enabled an improved quantification of the likely project outcomes, though uncertainty remains given the large size of the project and the time that is left to run on it. There have also been close-out issues on the Justice Precinct project as it is taking longer than anticipated to commission the new building.

Q. When do you expect to next update to the market on your guidance?
A. We expect the next update to be at the FY18 interim results on 21 February 2018. The updates on the B+I business are likely to be done on an approximately quarterly basis and until the last of the major B+I projects is completed in the second-half of calendar year 2019.

Q. How has the business outside of B+I been trading in the first quarter of FY18?
A. Overall trading in Q1 has been broadly in line with expectations. Activity levels in New Zealand remain elevated, though with growth rates slightly lower than expected. The Company's building materials and distribution businesses in New Zealand recorded flat to low single-digit revenue growth in Q1, impacted to a degree by industry resource constraints and unusually wet weather. In addition, strained supply chains are creating some cost headwinds. House prices in the key Auckland market have softened slightly, though in line with expectations, and sales volumes remain solid. In Australia the overall market is flat to slightly down, consistent with expectations, and energy costs are a key cost headwind. Formica is experiencing modest growth in local currency terms.

<u>Teleconference Details</u>

3.30pm NZT, Wednesday 25 October 2017
Passcode: 508929

Australia Toll Free:	1 800 558 698	Hong Kong:	800 966 806
Australia Local:	+61 2 9007 3187	Japan:	0053 116 1281
New Zealand Toll Free:	0800 453 055	Singapore:	800 101 2785
NZ Local (Auckland):	+64 9 929 1687	UAE:	8000 3570 2705
NZ Local (Wellington):	+64 4 974 7738	United Kingdom:	0800 051 8245
NZ Local (Christchurch):	+64 3 974 2632	United States:	(855) 881 1339

You can pre-register for the call, which enables a quicker entry to the teleconference when dialing in:
https://services.choruscall.com.au/diamondpass/fletcher-508929-invite.html

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