

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.

Passcode: 766358

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

A replay is available using the following details:

Australia:	1800 265 784
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NEWS RELEASE



Statement from Fletcher Building Chairman, Sir Ralph Norris

Auckland, 14 February 2018: The Fletcher Building Board understands the disappointment of our shareholders regarding the latest provisioning in the Building + Interiors (B+I) business.

As Chairman of Fletcher Building, our shareholders place significant faith in me to act in their best interests. This has always been my priority. I also know shareholders expect accountability from the Board for all aspects of the Company's performance.

In this context I wish to announce that I will stand down as Chairman. To allow an orderly transition of the Board this will occur no later than the 2018 Annual Shareholders' Meeting.

I said at our last Annual Shareholders Meeting in October that I felt a sense of obligation to see the business through these challenging circumstances and to complete the CEO transition and Board refresh I had commenced.

We have appointed a new CEO, Ross Taylor, who is now ably leading the business and three new Directors and a new Chairman will be appointed in the coming months.

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.

Fletcher Building remains a great and solid business. I have every confidence it will weather this storm, and once again deliver our shareholders the value they expect and deserve.

#Ends

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**Building communities,
building lives.**

Trading Update

ROSS TAYLOR

— Chief Executive Officer

BEVAN MCKENZIE

—Chief Financial Officer

14 February 2018

Fletcher Building
Trading Update Presentation Feb 2018



Agenda

What we will cover today

1. Construction provision update
2. The future of B+I
3. Fletcher Building FY18 earnings guidance and interim dividend
4. Financial detail and debt outlook
5. Next steps



Construction

Business unit summary

	Focus	Current backlog ¹	Typical range of project size	Contracts	Top 5 projects as % of total backlog ¹	Average annual EBIT FY05-16
Infrastructure including Brian Perry	Building horizontal structures (roads, bridges, transport lines)	\$682m	\$1m - \$350m	Fixed price (c60%) and alliances (c40%)	84%	\$16m
Higgins	Pavement-laying, road maintenance, and asphalt production	\$648m	\$1m - \$50m	Largely fixed price	17%	\$35m
B+I	Commercial building projects	\$926m	\$1m - \$450m	Predominantly fixed price or guaranteed maximum price	61%	\$16m
South Pacific	Mainly commercial building in Pacific Islands, some infrastructure	\$61m	\$1m - \$50m	Largely fixed price	79%	\$9m

1. As at 31 December 2017



B+I

Overall portfolio

Total portfolio:

- 73 projects
- \$2.8bn contract value
- 65% complete

Loss making/on watch:

- 14 key projects
- \$2.3bn contract value
- 59% complete

Other projects:

- 59 projects
- \$0.5bn contract value
- 67% complete

B+I fixed overhead costs ~\$40m pa



B+I

Review process since October 2017

- CEO project reviews on sites
 - Instigated a full review of 16 B+I projects, accounting for over 90% of the construction backlog
 - Augmented this internal review process with external, independent construction experts
 - Re-engaged KPMG with an expanded remit and integrated into review process
- **Provided for a further \$467m of losses across the B+I project portfolio, in addition to the provisions announced in October 2017**



B+I

Why provisioning has increased

Projects have continued to progress:

- Better visibility and certainty of cost forecasts
- Significantly further advanced on procurement of important trade packages
- Incorporated material price increases across trade finishing costs

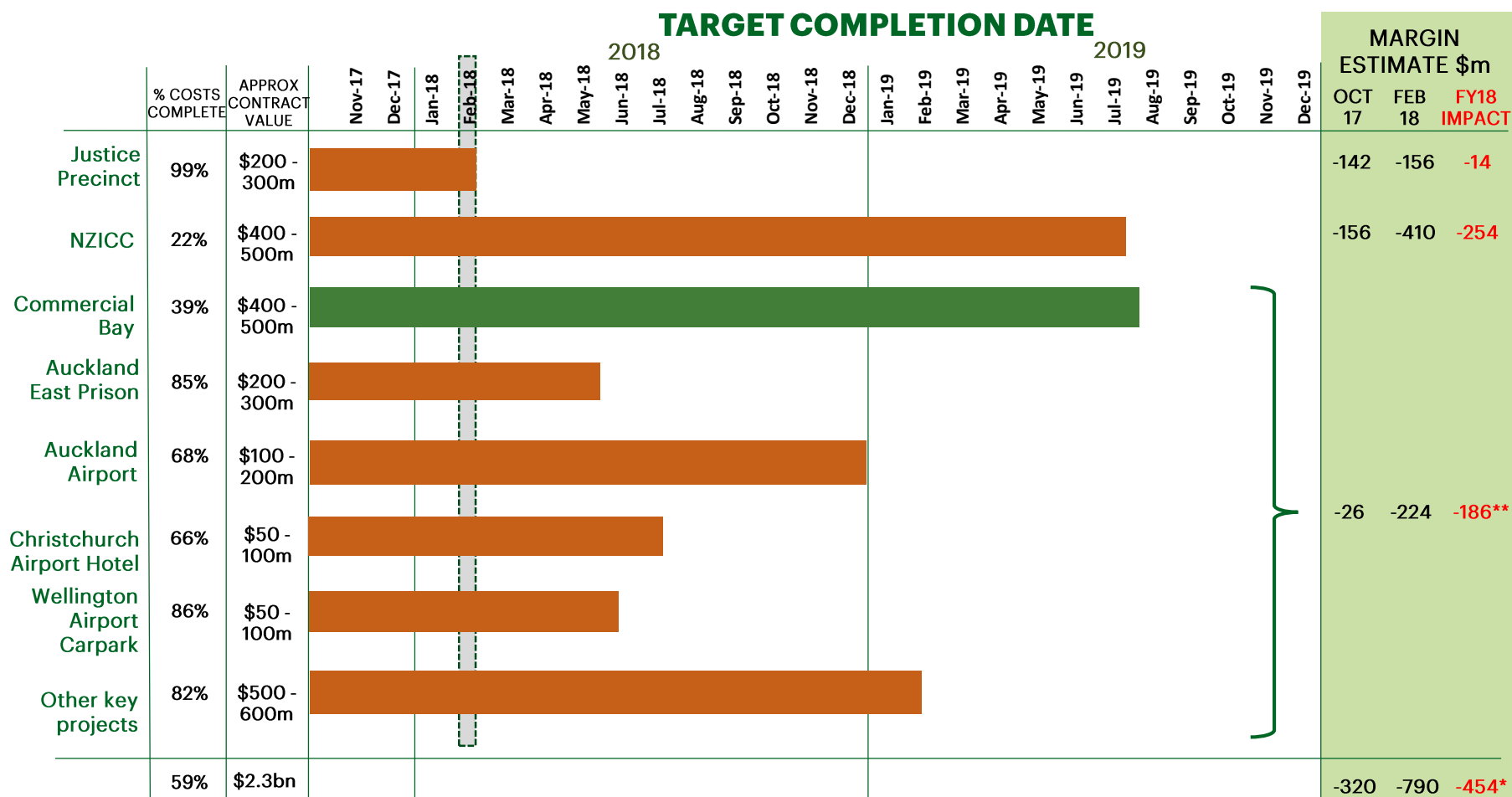
Provisioning more pragmatic:

- Allowing for appropriate time and cost contingencies beyond the target programs
- Less aggressive trade cost forecasts
- Productivity forecasts based on rates we are achieving
- More conservative client claim and variation outcomes



B+I

Detail on key projects



* Outside of these key projects there is a \$13m reduction in forecasted EBIT for profitable projects

**Included in Feb 18 estimate is some projects moving from profit to loss

B+I Key Project Profile

New Zealand International Convention Centre (NZICC)

Key Data	At 31 December 2017
Client:	Sky City Entertainment
Targeted completion date:	July 2019
Cost to complete:	\$887m
Expected profit/loss:	\$(410)m ¹
Cost completion:	23%
Value of trades to let:	\$181m



Project update:

- Project team settling and procurement well advanced

Approach to provisioning:

- Incorporated large increases in trade finishing costs
- While we continue to target agreed completion dates, we have allowed significant buffer
- Conservative view on contract claims

1. As at 14 February 2018



B+I

The future

Immediate

- B+I teams will focus solely on completing existing projects
- We will not be bidding for any further vertical construction work in NZ, allowing key resources to be redeployed to project completion
- Appropriate actions to retain and motivate key staff
- Absolute focus on delivering our existing projects within existing provisions and to the highest quality for our customers

Longer-term

- Other Construction businesses in favourable markets experiencing strong growth
- B+I market sector continues to be characterised by high contract risk and low margins – we will no longer work under these conditions
- As B+I projects are completed, key resources will be redeployed to other Construction Division businesses, to support their further growth

➤ **This transition will result in restructuring provisions of approximately \$20 million**



B+I

Summary of forecasts

New provisioning and other costs have increased the B+I EBIT loss for FY18

- Now expecting B+I EBIT in FY18 to be \$(660)m

	Project losses	Overhead and other costs	EBIT
25 Oct 2017 ASM	\$(125)m	\$(35)m	\$(160)m
14 Feb 2018 (incremental)	\$(467)m	\$(33)m	\$(500)m
Total FY18	\$(592)m	\$(68)m	\$(660)m



B+I

Confidence in reforecasting

What has informed reforecasting since October:

- Comprehensive and externally supported review process, building on October reviews
- New project teams introduced across multiple projects last year on the job for longer and stabilising
- While agreed project completions remain our target, we have allowed for significant cost escalation
- Projects further advanced and procured
- Refocussing of B+I will free up resources to support completion



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Guidance and dividend

B+I

- Following today's update FY18 EBIT for B+I is expected to be \$(660)m

Fletcher Building Group excluding B+I

- Continues to expect FY18 EBIT to be in the range of \$680m – \$720m

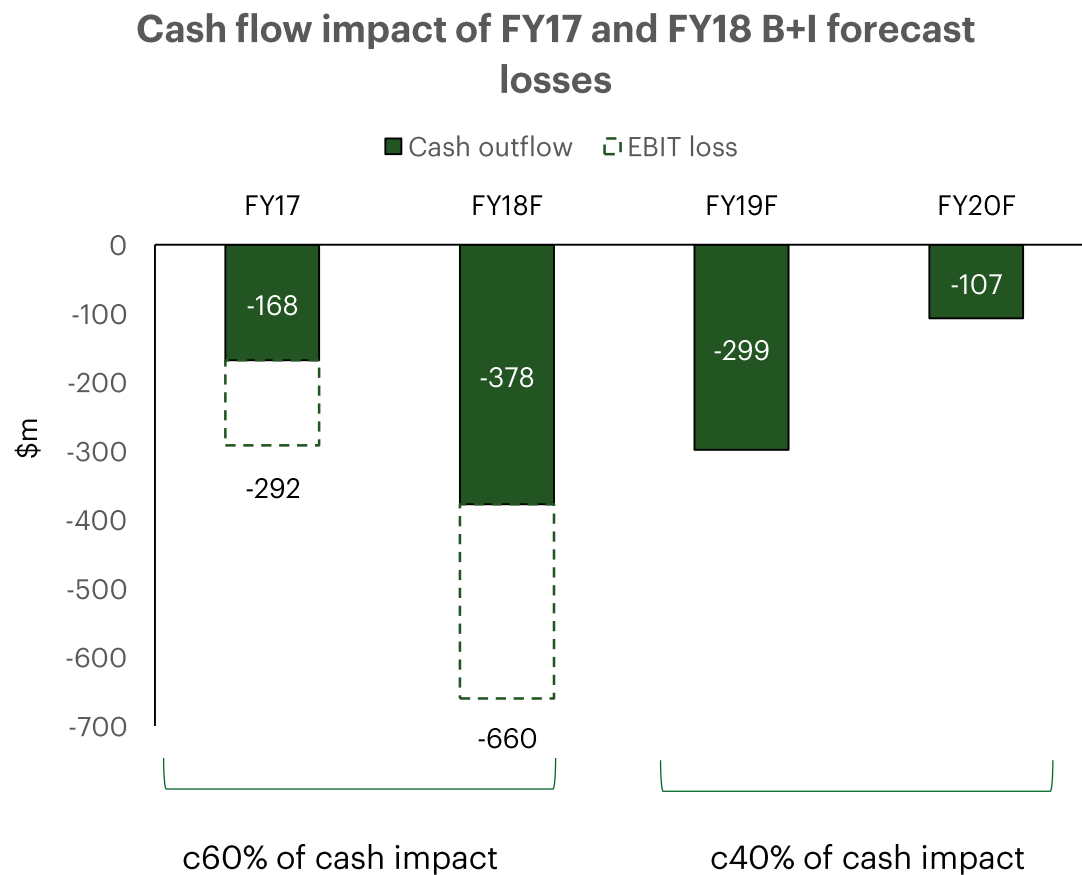
Dividend

- In line with dividend policy no interim dividend will be declared for HY18



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Cash impact of B+I losses



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Cash flows remain strong across group

- Strong and improving trading cash flows in remainder of Group ex B+I
 - FY18 EBIT guidance of \$680m - \$720m reconfirmed
 - Improvement in working capital movements

Trading Cashflows ¹ (\$m)	FY17	FY18F
B+I	\$(168)m	\$(378)m
Group Excl. B+I	\$635m	Approximately \$700m
Group	\$467m	Approximately \$320m

1. Trading cashflow = unlevered cashflow + movements in working capital



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Debt profile as at 31 January 2018 (prior to covenant breaches)

Debt update:

- Headroom at 31 January 2018 of \$1bn¹
- Net debt forecast to increase by c.\$250m in calendar 2018
- At this net debt level remaining headroom is c\$750m

Tranche	Facilities \$m	Drawn at 31 Jan 18 \$m
Banking syndicate	1,270	435
USPP ²	1,136	1,136
Capital Notes	622	622
Other ³	103	103
Total	3,131	2,296
Cash on hand		173
Net Debt		2,123

1. Undrawn facilities of \$835m plus cash on hand of \$173m

2. Excludes currency gains of \$26m

3. Working capital facilities in India and Europe, Finance Lease, Trade Bills and Fiji



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Banking covenants breach

Increase in non-cash B+I forecast losses has led to a breach of key banking covenants

- Breach does not trigger automatic repayment default of loan agreements
- If the non-cash portion of the losses are excluded, then the Company would have remained within its covenants

Covenant	Reported at 31-Dec-17 (after provisioning)	At 31-Dec-17 excl non-cash B+I provisions
Senior Net Debt/EBITDA	Breach	Within covenants
EBIT/Senior Interest	Breach	Within covenants
EBIT/Total Interest	Breach	Within covenants
Guaranteeing Group EBITDA/Total EBITDA	Breach	Within covenants



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Update on discussions with lenders

Commercial Banking Syndicate

- Waiver of breach received
- Commitment to provide continued access to funding facilities
- New covenant terms targeted to be agreed by end of March 2018

USPP

- Discussions underway with USPP holders
- New covenant terms targeted to be agreed by end of March 2018



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Capital management implications

- Additional forecast losses announced today are non-cash
 - Cash flows from B+I losses crystallise over the next three years – not all immediate
 - Group cash flows remain strong and predictable
 - No interim dividend
 - Waiver of current breach achieved with commercial banking syndicate
 - Targeting all funding lines renegotiated by end of March 2018
- **Fletcher Building remains well capitalised and solvent with strong underlying cashflows**



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Next steps and HY18 results

1. Half Year Results
2. Divisional performance
3. Market outlook
4. More detail on strategic review through to June



Disclaimer

This presentation dated 14 February 2018 provides additional comment on the media release and documents filed with the NZX of the same date. As such, it should be read in conjunction with, and subject to, the explanations and views of future outlook on market conditions, earnings and activities given in that commentary.

