FLETCHER BUILDING LIMITED

NEWS RELEASE

UPDATED FY2017 EARNINGS GUIDANCE

Auckland, March 20, 2017 – Fletcher Building has today provided an update on earnings guidance for the 2017 financial year.

The company now expects operating earnings before interest, tax and significant items ("EBIT") to be between $610 million to $650 million for the year ending 30 June 2017. This compares with the previous EBIT guidance range of $720 million to $760 million.

The revised guidance is due to the identification of additional estimated losses and downside risk in the Buildings and Interiors ("B+I") business unit of the Construction division.

A thorough review of the B+I business and projects began in late calendar year 2016 and led to new management and governance processes. A significant loss was recorded for B+I in the half-year results based on the best estimate available at the time. However, management has now identified an increase in the estimated loss on the major construction project which was referenced at the time of the announcement of the H1 17 results, and the identification of downside risk on other B+I projects, with the majority being a provision for expected losses on one other major project.

Chief Executive Mark Adamson stated that it was extremely regrettable that expected profitability for FY17 in the Construction division has worsened since comments made at the time the H1 17 results were reported.

"It is very disappointing that the review of the B+I business unit has found weaker performance than we had previously understood."

All other business units within the Construction division have continued their strong trading performance. However, taking into account the new estimates of profitability for the commercial construction projects, it is now expected that the Construction division as a whole will report a loss at the EBIT level for FY2017.

Trading for Fletcher Building's other divisions remains in line with expectations previously discussed in the first half earnings commentary.

Questions and Answers

The FY17 EBIT guidance range has been reduced by approximately $110m compared to the previous range – what are the key drivers of this reduction?
The reduction in EBIT guidance relates to the Building and Interiors business unit ("B&I"). The reduction has two components:

1) There has been an increase in the estimated loss on the major construction project which we referenced at the time of the half-year results announcement. This additional estimated loss represents approximately half of the reduction in guidance announced today.
2) The remaining portion of the reduction is due to the identification of downside risk on other B+I projects, with the majority being a provision for losses on one other major project, and a smaller amount due to increased costs elsewhere in the B&I business unit.

Which are the two key projects and when will they be completed?
For reasons of client confidentiality, we will not name the projects.
We expect one of the projects to complete within the next few months, and the other is targeting completion in FY19.

Has there also been deterioration in other areas of the business since the half-year results announcement?
Trading within businesses outside of B&I remains in line with guidance given at the time of the half-year results. This includes the other Construction business units – Higgins, Infrastructure, Fletcher EQR and South Pacific – all of which are trading in line with our expectations.

Why is this update coming so soon after the half-year results announcement?
A thorough review of the B+I business and projects began in late calendar year 2016 and led to the introduction of new management and governance processes. A significant loss was recorded for B+I in the half-year results based on the best estimate available at the time. However, as the new governance processes have been further bedded in, management has found that the expected losses are greater than previously estimated. Consequently, an update to FY17 earnings guidance for the Group has become necessary. It is important to note that under accounting rules, profit on a construction contract is recognised progressively through the life of the project, whereas when it is probable that a contract will incur a loss, the expected loss must be recognised immediately as an expense.

What has been learned since the half-year results to cause the revision in estimated losses within B+I?
The major projects involved are large and highly complex. Project reports and reviews received since the half-year results announcement have indicated significantly higher costs to complete the projects, and have also enabled improved quantification of remaining risks. In addition, the detailed review by new management has led to downward revisions in expected profits on a number of smaller projects.

What have been the main issues in the construction projects concerned?
The most significant issues relate to complexity in design, subcontractor management and building program delivery on key projects. This has led to an extension of project timelines and increase in project resource requirements and costs, relative to original budgets. The extent of this has become more apparent since the half year announcement as new management and processes have bedded in.

What is being done to make sure this doesn't happen again?
We have made, and are continuing to make, changes to Construction governance processes and personnel which is enabling us to clearly identify and address project performance issues. We have appointed a Chief Operating Officer for the Construction division, a new head of Risk and Governance in the Construction division, and a new General Manager of the B&I business unit will start shortly. We have new finance leadership and processes along with the recent implementation of a new financial management reporting system (JDE). The criteria for bidding major construction projects have been made more stringent, and internal review processes for proposed and existing projects have been strengthened. We believe these changes will drive improvement in future periods.

Does the update also impact the outlook for FY18?
Fletcher Building does not provide guidance beyond the current financial year, however we have tried to be conservative in estimating the losses in the current construction book, and trading in our other divisions remains in line with our expectations. The one commercial construction project that is expected to be finished in FY19 and on which we have now taken a provision for estimated losses, was previously expected to make an EBIT contribution of approximately $10 million to FY18 earnings.

Will you pursue claims related to major project losses?
We do not discuss matters related to claims publicly. Whenever we have issues on a construction project, we endeavour to work constructively with our clients and other relevant parties to resolve them. Where we have a robust basis for a claim we will consider our position carefully.

Do these issues point to a systemic issue in your construction book?
We don't think these issues are systemic because they are primarily related to program and design challenges on a small number of major projects. We are very cognisant of pressure on labour and sub-contractor resource in the New Zealand construction industry at present, and need to ensure we manage this effectively in current projects and future bids. We believe that the changes we are making to strengthen our governance, management processes, and bidding criteria and review and approval processes will enable improved performance in the future.

What proportion of the contracts in the construction book are fixed price?
Our current construction backlog is approximately $2.7bn. Of this, approximately $1.5bn is in the B&I business. All but one of our major projects underway in B&I is either a "fixed price lump sum" or "guaranteed maximum price" contract. This is standard in the commercial construction industry. We do not believe the issues we have uncovered relate to contract type, but rather challenges related to program and design complexity in key projects.

Has the growth in the B&I business been driven by a deliberate strategy to boost volume growth for the Building Products division?
Building Products operates as an independent division to Construction and supplies product to the Construction division's projects on arm's length terms. We estimate that sales from Building Products businesses to B&I make up less than 5% of total Building Products revenue.

Does this downgrade to earnings guidance pose a risk to your banking or debt covenants?
Despite the reduction in forecast cash-flows from the construction division in FY17, the Company remains comfortably within its banking covenants and target debt metrics and expects to continue to do so. Based on the updated guidance range, we expect the ratio of Net Debt to Net Debt plus Equity to be around 34% at the end of FY2017, and the ratio of Net Debt to EBITDA to be approximately 2.4 times.

Teleconference

Fletcher Building management will host a teleconference call for institutional investors, fund managers and analysts at **11.00am NZ time today** (9.00am Australian Eastern time) to provide some more detail on this announcement. Dial in details are set out below.

Passcode: <u>914668</u>

Dial in details are as follows:

Australia Toll Free:	**1 800 558 698**	Japan:	0053 116 1281
Australia Toll Free:	1 800 809 971	Malaysia:	1800 816 294
Australia Local:	02 9007 3187	Netherlands:	0800 020 0715
New Zealand Toll Free:	**0800 453 055**	Norway:	800 69 950
NZ Local (Auckland):	09 929 1687	Philippines:	1800 1110 1462
NZ Local (Wellington):	04 974 7738	Singapore:	800 101 2785
NZ Local (Christchurch):	03 974 2632	South Korea:	00 798 142 063 275
China Wide:	4001 200 659	Sweden:	020 791 959
Belgium:	0800 72 111	South Africa:	0800 999 976
Canada:	1855 8811 339	Switzerland:	0800 820 030
France:	0800 913 848	Taiwan:	008 0112 7397
Germany:	0800 182 7617	Thailand:	001800 156 206 3275
Hong Kong:	800 966 806	UAE:	8000 3570 2705
India:	0008 0010 08443	United Kingdom:	0800 051 8245
Indonesia:	001 803 019 3275	United States:	(855) 881 1339
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