FletcherBuilding

Annual Meeting of Shareholders 2006

2.00pm Tuesday 14 November
Rangitoto Room
Langham Hotel
83 Symonds St
Auckland
New Zealand

Chairman’s Address

FLETCHER BUILDING LIMITED

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Good afternoon ladies and gentlemen and welcome to the sixth annual shareholders' meeting of Fletcher Building Limited.

Financial Results

As we have already reported, the company's net earnings after tax were $379 million – up 9 percent on the previous year. This was a lower rate of increase than we achieved in the four prior years, but nevertheless a good performance given the somewhat softer market conditions for residential construction in New Zealand and in Victoria and New South Wales.

As we have observed in the annual report, a slowdown of the same magnitude would have reduced our earnings in years past. We have succeeded in building greater resilience into the earnings profile through geographical and market sector diversification – and through good internal performance. In particular, the Laminex, Tasman and Amatek acquisitions made since 2002 have increased the non New Zealand portion of our revenue such that 42 percent of our sales are with customers outside New Zealand – the flipside of which is a very significant reduction in reliance on a single national economy.

We have also managed to perform well in comparison to our competitors and peers. This is particularly pleasing for the obvious reason that we operate in the same markets – and with the same cost pressures, which brought increases in some raw materials, energy, freight and labour costs during the 2006 year. Whilst there is no doubt that this year and the next will bring further pressures on both the demand and cost sides of the equation, the board is confident that we will continue to perform well. We have not only a well balanced portfolio of activities, but also a strong management team with a culture in which good performance is keenly pursued and is tangibly linked to rewards.

Earnings per share were 81.3 cents, up from 77.6 cents in the previous year, providing the scope for a further increase in dividends. The final dividend of 21 cents per share was the ninth consecutive increased dividend. The increase in total annual dividend – from 32 cents to 40 cents per share – was a very pleasing outcome indeed.

All our dividends have full New Zealand tax credits attached. The situation for our Australian shareholders has been a little more complex this year because we have not attached franking credits to the final dividend. We will do so in future when there is a greater accumulation of credits available. Our policy is, of course, to maximise your after-tax returns from the dividends paid.

As one would expect in line with continued strong performance, the company is in a robust financial condition. Our gearing is a relatively conservative 37 percent, and our earnings at the operating level cover our interest bill 9.3 times, showing among other things that the three large acquisitions made in Australia over the past four years have been well and truly digested. We thus have sufficient financial capacity to continue to invest for growth. Jonathan will add some depth to our intentions in this area.

The strong performance of the company has continued to be rewarded with an increased sharemarket value. Our share price was $6.91 on 30 June 2005 and $9.15 on 30 June this year. Along with the dividends and tax credits, this provided a 40 percent total shareholder return for the year, following 61 percent in the 2005 year and 33 percent in the year to June 2004. The compound annual rate of return since listing in 2001 is 29 percent.

Governance and management

One of the key tasks of the board in the past year was to deal with the impending retirement of Ralph Waters as chief executive. Appointing the chief executive is possibly the most important task that any board can face, and so it received a great deal of your directors' time and focus. An international search was completed, with strong internal and external candidates under consideration. The decision to appoint Jonathan Ling was supported unanimously, notwithstanding the esteem in which other candidates were also held.

Jonathan is an engineer by training, and has had an extensive career in managing a variety of manufacturing enterprises in both our part of the world and in Asia. He joined Fletcher Building as chief executive of the Laminates & Panels division in 2003, did an excellent job in that role, and has built a high level of respect within the board and the management group.

Jonathan's predecessor as CEO, Ralph Waters, provided outstanding leadership for the company, established a very high level of performance, and thoroughly deserved the many plaudits that came his way when he retired on 31 August. Ralph has been well and truly farewelled as chief executive, so I won't repeat that task but it is appropriate to reflect on the results that were achieved under Ralph's stewardship for the five years from 1 July 2001 to 30 June 2006.

- net earnings grew from $93 million to $379 million this year.
- dividends nearly tripled from 14 cents to 40 cents per annum.
- cumulative total shareholder return was 387 percent.
- operating earnings more than tripled from $210 million to $675 million.
- earnings per share rose strongly from 27 cents to 81 cents.

These are very impressive results. Of more importance for shareholders is the effect they have had on the share price. It has grown from $2.20 on listing to trading at over $10.00 a few days ago.

As we have discussed on previous occasions, your board is actively involved in the business, through regular meetings and direct experience of the various operations. There is a strong emphasis on good governance processes as a necessary partner to the entrepreneurial aspects of the wealth creation process. Detailed commentary on the governance regime is available in your annual report.

People

While there is a natural focus at these meetings on the board and management, I want to make it clear that the efforts of all those who contribute to the success of Fletcher Building are very much appreciated. This includes our customers, suppliers and advisors – and in particular, the 15,500 Fletcher Building employees world-wide. It is a matter of great satisfaction that our staff identify so strongly with the values and the success of the company. Our people have high levels of employee engagement and satisfaction, as measured in our professionally structured and managed staff surveys. We will be striving to ensure that this remains the case.

Our greatest obligation to our people is to ensure their health and safety are protected as they go about their work. Many of our workplaces are inherently hazardous. We work strenuously to minimize risk through clear management accountability, binding policies and innovative communication programmes. These initiatives generally exist at the business unit level, and are too numerous to mention today. They have however, helped the company achieve a significant improvement in its lost time injury frequency rate this year. I am happy to say that most business units are showing consistent downward trends and I can assure you that this will remain a very important area of focus for the company.

Trading Outlook

As reported in recent days, the Government has indicated that if a waterfront stadium is to go ahead for the Rugby World Cup, Fletcher Construction will build the first stage, comprising the piling and platform.

As you are well aware the location and nature of a stadium are matters of public discussion and decision-making.

We will, of course, be pleased to participate in the construction side of project once it is finally determined.

It is now appropriate to provide some comment on the outlook for this year. We expect to report another satisfactory result for the current year, with the company's involvement in commercial building and infrastructure markets offsetting the continued softening in housing markets.

Operating performance has been pleasing so far this year. Net earnings for the first four months of this year are slightly ahead of the result for the same period last year. Whilst it is too early to predict net earnings for the 2007 financial year, we note that the current consensus of analysts forecasts is for net earnings of $388 million. Based on results to date, and the expected successful resolution of the insurance arrangements for the Taupo MDF plant and the Pacific Steel transformer failure, directors are comfortable with this consensus forecast.

On that pleasing note I conclude my comments. Thank you for your attendance.