Annual Meeting of Shareholders 2007

10.00 am Tuesday 13 November 2007
Rangitoto Room
Langham Hotel
83 Symonds St
Auckland
New Zealand

Chief Executive Officer's Address

FLETCHER BUILDING LIMITED

Annual Meeting of Shareholders 2007

Good morning ladies and gentlemen.

I am very pleased to report back to you on my first year as chief executive – especially since it has been a year of continued success despite the challenging market conditions the chairman has referred to.

Business overview

While conditions were softer overall, in reality they varied across the different regions and market sectors. In New Zealand, the residential sector weakened but there was continued strength in commercial building and infrastructure.
In Australia, conditions were weakest in New South Wales and Victoria.

The high New Zealand dollar also had an adverse effect on earnings – specifically in some of our Building Products and Steel businesses, where it made exporting more difficult.

The fact that the group performed so well despite the operating environment again bears out our focus on earnings reliability. Operating in different regions and across market sectors, our peaks have more than compensated for our troughs.

We continued to drive our strategic objective to grow and increase the geographic diversity of the company's earnings. A number of relatively small businesses were acquired, and the acquisition of Formica was negotiated and announced during the year.

Operating earnings – earnings before interest and tax – were up four percent to $703 million, including a net $5 million of unusual gains. The increase reflects the benefits from acquisitions, productivity improvements and the unusual items, offset by the effect of the market conditions.

Reduced earnings in two divisions – Building Products and Steel – were more than offset by increases in Infrastructure, Laminates & Panels, and Distribution. From an operational perspective, all the divisions performed well.

Infrastructure

In reviewing the performance of the divisions, I'll begin with the biggest – Infrastructure.

Infrastructure’s sales and earnings rose for the sixth year in a row. Sales were up seven percent to $1.94 billion – and operating earnings increased six percent to $271 million.

The growth was achieved in spite of slightly weaker overall demand in New Zealand, with lower cement volumes for the first time in six years and very weak market conditions in New South Wales.

All the key Infrastructure operations reported higher operating earnings. The key factors were an ongoing focus on improving margins, cost reduction programmes, product rationalisation, investments and divestments.

Golden Bay Cement achieved increased prices and reduced its overheads, more than compensating for a slight reduction in sales.

Winstone Aggregates had similar trading volumes as for the previous year, but also achieved higher prices and reduced costs.

Firth had higher sales volumes for concrete, but lower prices in the Auckland and Waikato regions. Masonry volumes were steady, but margins were higher due primarily to cost savings.

Humes had some deterioration in margins, but demand remained strong.

The Rocla pipeline business had increased sales volumes in all product groups, and the quarry business had very strong results in all states except New South Wales. Fletcher Residential had an exceptional year, with increased prices and margins, strong demand in Auckland and increasing interest in the Jacks Point development in Queenstown.

Fletcher Construction had a strong year operationally, and secured a number of major projects including the BNZ Centreport, Tauranga Harbour Link, Hobson Bay sewer tunnel and Lower Hutt motorway. At year’s end, the construction backlog was a very healthy $775 million.

Since that time, the backlog has grown even larger – to a record level of more than $1 billion – as we have been awarded contracts to build the Manukau Harbour second crossing, a major Wellington office block and the New Lynn rail trench.

Capital investment has been a big contributor to Infrastructure’s operational and financial performance. The division invested another $110 million across its operations in the 2007 year. The highlight was the commissioning of the final stage of the Golden Bay Cement upgrade, begun in 2002. The upgrade is delivering increased production capacity, improved fuel efficiency and a range of other benefits.

We have also sold two small businesses, with the Hinuera Stone operations sold during the year and after year-end, the Stresscrete concrete panels business.

Distribution

The Distribution division posted the highest percentage rise in revenue. Sales grew by more than 11 percent to just over $1 billion. Operating earnings were up seven percent to $80 million.

Charge sales – usually to trade customers – rose by 12 percent. Cash sales to do-it-yourself customers were up nine percent, despite a significant growth in competition from large format retailers. I think you'll be aware that there has been a big investment in larger stores by PlaceMakers and its competitors over the past few years.

The growth in sales was supported by the division's store development programme. New PlaceMakers stores were opened in Takanini, Whitianga, Palmerston North, Richmond and Wanaka. Six existing stores were expanded and upgraded, and a new distribution facility was added to the site in Cook Street, Auckland.

The division's capital expenditure was almost $18 million, primarily on store upgrades. There was also continued investment in information systems including further work on a new store computer system. PlaceMakers also purchased the Maddren Timber distribution business, comprising three stores in northwest Auckland. Maddren, with annual revenues of around $30 million, had previously traded under the ITM brand. This purchase followed the earlier acquisitions of stores in Mangawhai Heads, Cromwell and Stratford. The Distribution division has also had a strong focus on the performance of frame and truss manufacturing, and has set up a regional investment strategy for the 23 plants involved.

Building Products

Sales by the Building Products division were up by almost 11 percent to $700 million dollars, but operating earnings were down one percent to $141 million.

I would describe this as a fairly good performance given the relevant economic climate on both sides of the Tasman – a flat new housing market in New Zealand, declining activity on the Australian east coast, and the strong New Zealand dollar.

The plasterboard business lifted sales by four percent. Earnings matched those for the previous year despite significant import pressures arising from the high New Zealand dollar.

Our insulation operations took a hit in both countries.

In Australia, Fletcher Insulation's earnings were down 29 percent. Residential markets in New South Wales and Victoria were soft and there was keen competition from imports. Market conditions in other states were stronger, but gains were offset by high transport costs. Fletcher Insulation completed a restructuring programme in Australia to focus on the glasswool operations, and its performance improved in the June quarter, and continues to improve this year. The small polyester insulation factory in Minto, New South Wales, was closed during the year.

In New Zealand, insulation earnings were down 13 percent due to higher glasswool manufacturing costs and competitive import pricing.

The metal roof tile business had a very good year, despite the high dollar's impact on exports from the Auckland plant. Manufacturing plants in New Zealand and Malaysia produced record volumes, sales rose 13 percent overall and earnings were up 23 percent. With sales growing in Europe, a decision has been made to build a roof tile manufacturing plant in Eastern Europe.

Among the division's other businesses, Tasman Sinkware performed well, with strong domestic sales of its Oliveri range. Tasman Access Floors had its best year since being acquired in 2003, and the Forman Group made a significant contribution after it was acquired five months into the year.

The Forman Group purchase was a key move in Building Products' diversification strategy, with its focus on commercial and industrial markets reducing exposure to the New Zealand residential sector.

Capital projects with a total value of $36 million were completed during the year. These included the installation of a new arc furnace in the Dandenong glasswool plant, a bulk gypsum storage facility in Christchurch for Winstone Wallboards, a robotic press in-feed project at Tasman Sinkware in Adelaide and a number of information technology developments for Fletcher Aluminium.

Steel

The Steel division was separated from Building Products to ensure an appropriate level of strategic and management focus. It had the toughest year of any division, mainly due to a major increase in the price of scrap metal.

Sales were up by seven percent to $1.2 billion, but operating earnings were down 14 percent to $80 million.

The long steel business, which converts the scrap into reinforcing rod and bar, had to pay record prices for the scrap metal, and then had to compete against cheaper imported product courtesy of the high dollar.

There was better news from the division's other two businesses.

The rollforming business had a successful year, matching the previous year's operating earnings despite a more competitive trading environment on both sides of the Tasman.

And Fletcher EasySteel – the steel merchandising business – performed above expectations, with good growth in sales of processed steel.

There have been significant acquisitions in rollforming. Late in the year Stramit bought Eziform Sheetmetals, adding commercial sheetmetal expertise and capability in southeast Queensland. Moving into the current year, it has purchased the Fair Dinkum Homes and Sheds business, which is the major supplier of pre-engineered buildings in the Australian market and also supplies to New Zealand, the United Kingdom and South Africa.

Steel invested $36 million on capital projects and acquisitions during the year. It installed a new transformer in the Pacific Steel plant – one of a series of projects that will increase capacity by 20 percent. It improved the capability of the rollforming business, and it opened a new Dimond facility in Christchurch and a new Stramit facility in Rockhampton.

Laminates & Panels

And that leaves the Laminates & Panels division. Laminates & Panels lifted revenue by three percent to $1.06 billion, and achieved the largest rise in operating earnings – up 13 percent to $131 million.

The Australian business performed particularly well, with sales growth offset by competitive pressure on margins, but effective cost control achieving an increase in earnings. The only exception was the Wespine sawmilling joint venture in Western Australia, which had a difficult year.

Sales in New Zealand were well down because of the fire that destroyed the Taupo medium density fibreboard plant in September 2006. The favourable insurance outcome was included in unusual items. It was regrettable that around 80 employees were directly affected by the closure of the plant.

Notwithstanding the drop in revenue, earnings from the New Zealand businesses were up slightly – thanks to sales and distribution initiatives, and a full year of income from the O'Brien bench top business.

Improvements continued right across the division. Upgrades in the Kumeu and Dardanup particleboard plants have already produced benefits. Work began during the year to build a new heat energy plant at the Gympie medium density fibreboard site, and on the construction of a new distribution centre in Perth and a new branch in Bunbury.

The division also launched several new products, including a range of reconstituted timber veneers from plantation timbers and a new Vizage vertical surface range for wet areas.

After the end of the year – in September – the division purchased a 20 percent share in a medium density fibreboard plant in Mataura, Southland, from Korea-based Dongwha Holdings. The plant has been Laminex's main source of MDF in New Zealand since the Taupo plant was destroyed. We have an option to buy a further 30 percent of the plant during the two years up to the end of 2010.

In the context of changes in our manufacturing mix I should also mention that declining returns from the softboard and hardboard business in Penrose, Auckland, led to a decision to close the plant, and this has occurred last month. Regrettably only some of the long-serving employees have found continued employment with the group.

As the chairman has already noted, Formica Corporation will report as part of the Laminates & Panels division.

Formica Corporation

I want to spend a little time reviewing the acquisition of Formica and the implications for the group as a whole.

It's appropriate to reiterate the point that this is a key step in implementing our strategic objective to grow and further internationalise some businesses of the company.

Formica is a major international manufacturer and distributor of decorative surface products – mainly high pressure laminates, but also solid surface, compact laminate and engineered stone surfaces. It has 12 manufacturing and 33 distribution facilities across its regions of operation. It is a recognised leader in innovation in its industry.

The company was purchased for US$700 million, which is about NZ$913 million, plus up to US$50 million contingent on performance. The base price was a multiple of just over seven times anticipated earnings. As already noted, the transaction was well within our financial capacity.

Formica adds approximately $1 billion – or about 17 percent – to Fletcher Building's annual revenue. In so doing, it boosts our non New Zealand revenue to approximately 47 percent of the group total, from 38 percent prior to the acquisition.

Formica satisfied all the criteria against which we assess potential acquisitions. It is complementary to our existing Laminates & Panels business, which operates in Australia and New Zealand. It holds leading market positions with recognised brands. It operates within a favourable industry structure. And it will have an immediate positive financial impact on the group.

It has a strong management team in place – and the key members have stayed under Fletcher Building's ownership.

The acquisition presents us with further opportunities for growth and development, based on the fit with our existing business. As an example, Formica's manufacturing facilities in Asia will make Laminex more cost-competitive in Australasia – and Laminex can take advantage of Formica's Asian distribution network.

Our immediate priorities for realizing synergies lie in sourcing of raw materials and other inputs, co-operation to maximise plant utilisation, and leveraging the new product pipelines to ensure that the benefits apply across the group.

In short, Formica was a logical extension to our existing operations, and by acquiring it we have now established a truly global laminates business.

It is worth updating Formica's performance since we took over four months ago on 2 July 2007.

The Asian business has performed strongly, with the new factory in Shanghai, China, operating at capacity. We have just approved a capital expenditure of US$6 million for a fourth HPL press to meet demand. The Thailand and Taiwan businesses are also performing well.

The European business also performed strongly. The regional markets in Scandinavia, United Kingdom and Spain are buoyant and we are benefiting from continuing industry rationalisation.

The North American business is midway through a manufacturing restructure in a tightening market. The United States market has deteriorated since completing our due diligence earlier in the year. One of Formica's manufacturing rationalisation projects has been to close the Californian factory and eliminate the associated fixed costs. This requires doubling production at the Ohio factory. This project is taking longer than we expected.

However, overall we're happy with our progress with Formica.

Environmental Sustainability

We continue our drive towards environmental sustainability. A key initiative in the past year has been our participation in the Carbon Disclosure Project. This is

an international project that aims to facilitate the reduction of greenhouse gas emissions.

The Carbon Disclosure Project is run by an independent organisation headquartered in London. It provides a secretariat for institutional investors with a combined $41 trillion of assets under management. It surveys the private sector on the business risks and opportunities presented by climate change, and collects data from them on greenhouse gas emissions.

The project makes this information publicly available to assist the work of policymakers and the private sector itself.

Fletcher Building was one of a small number of New Zealand companies that took part last year, providing a comprehensive report that can be viewed on the Project's website. Our support can be taken as a clear demonstration of our desire to be proactive in managing the risks and opportunities from climate change.

Here in New Zealand, as you will be aware, the government has recently announced the key features of an emissions trading scheme to be phased in over the next few years. This is part of a broader framework to put an economic cost on carbon emissions and thus provide an incentive to reduce them.

Under the New Zealand scheme, some free carbon units will be distributed by the government and some will be sold at auction. Large scale emitters will require carbon units to match their emissions.

It is important to note that the scheme is not finalised and until the detail is developed it is not possible to determine any cost impact on the company. A key issue is the quantity and scope of the free allocation of carbon units.

However, the scheme, if implemented as announced, would affect our operations in several ways:

- Our largest carbon dioxide emitters, Golden Bay Cement and Pacific Steel, will be among the companies required to buy carbon units.
- All our operations will face increased electricity charges.
- Our operations other than Golden Bay Cement and Pacific Steel will face increased fuel charges, passed on by energy companies who have been required to purchase carbon units for the fuel they sell.

As similar costs will, apply to our New Zealand competitors, we should be able to recover some of these in the New Zealand market.

We are concerned that the scheme, if not implemented well, could have a significant adverse impact on the competitiveness of New Zealand manufacturing.

However, there are ways to avoid this and we hope that the government will pursue them.

On that note I will hand you back to the chairman, who will give you an update on recent trading and the outlook before progressing to the formal part of the agenda.

Thank you.