FletcherBuilding

Annual Meeting of Shareholders 2007

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

Chairman's Address

FLETCHER BUILDING LIMITED

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Good morning Ladies and Gentlemen. Welcome to the seventh annual shareholders' meeting of Fletcher Building Limited.

It has been another successful year, with record earnings, a further increase in the dividend rate, and continued growth in the value of the company. I'm particularly pleased that Fletcher Building has continued to perform so well despite a softening in market conditions.

Financial results

As we have already reported, group sales were $5.9 billion – 7 percent higher than for the previous year. Each of our five divisions increased its sales. This is a good result in a year when conditions in some of our markets were noticeably weaker.

Net earnings for the year were $484 million, up 28 percent, with the assistance of a one-off tax benefit of $70 million.

Even without the tax benefit the result would have been higher than for the previous year, and hence another record. Our earnings per share increased from 81 cents to $1.02 cents.

As a consequence, we have been able to increase the dividend rate from 40 to 45 cents per share. This is the eleventh consecutive semi-annual increase in the dividend rate. Our total shareholder return, which also factors in movement in the share price, was 42 percent.

We have thus maintained a good record of performance in earnings and shareholder returns.

Financial performance

Our earnings translated into a 25 percent return on average funds employed and 26 percent on average equity, which would rank us amongst the top performance for international companies in the businesses in which we operate.

Net cash flow from operations remained strong at $483 million. This supported our continuing strategy of investing for future performance and growth – total capital expenditure was $346 million, including:

- $121 million of 'stay in business' expenditure, to maintain the competitiveness of current businesses

- $131 million related to growth in existing businesses, and
- $94 million on acquisitions – remembering that the Formica acquisition was not completed until just after the end of the year.

The continuing strength of our cashflows is the key to our financial position.

Our gearing was low at balance date, at just over 22 percent reflecting the capital raising to support the Formica acquisition and the fact that the settlement for this transaction was just after balance date. Interest cover – the number of times our earnings before interest, tax, depreciation and amortisation covered our interest bill – increased from an already healthy 9.3 times to 9.8 times.

Formica Corporation acquisition

In one sense, the major development in the 2007 financial year came to fruition just after balance date. I am referring to the acquisition of Formica Corporation, which was announced in May and completed at the beginning of July.

Formica is the world's leading manufacturer of high pressure laminates, with a strong presence in North America, Europe and Asia. It is very complementary to our Laminex business, with its footprint in Australia and New Zealand.

The Formica brand and reputation are strong – I doubt there would be very many people in the room who hadn't heard of Formica prior to the acquisition.

As we have said in previous meetings and in annual reports, the pursuit of geographical and market sector diversity has been one of the key reasons for Fletcher Building's recent success. The Formica acquisition is a further step in this process.

The integration with the rest of the group is proceeding well. Formica will report its results as part of an expanded Laminates & Panels division, and will make a full contribution to earnings for the 2008 year.

Formica obviously had an effect on our balance sheet, increasing our gearing to 41 percent. This is still well within our target range of 40 to 50 percent… and clearly maintains flexibility for continuing internal investment and any further acquisitions.

The Formica purchase was funded initially by bridging bank debt facilities and an underwritten placement of 26 million shares raising NZ$328 million. The placement was very successful, with a price of $12.60 per share and strong support across a broad range of institutional investors.

The bridging finance has since been replaced by an issue of fixed rate notes in the United States market and an increase in our syndicated bank facilities. This provided extended terms, with maturities in 2016 and 2019, to further improve the debt maturity profile and diversify our funding.

Shareholder reports

Changing tack slightly… I would like to touch briefly on the changes that took effect this year in the way listed companies are required to report to their shareholders, and on how Fletcher Building has responded.

New legislation and stock exchange requirements mean that listed companies no longer have to provide a printed copy of their annual report to each shareholder. Under this new regime, companies can take the alternative of publishing their reports on the internet, allowing shareholders to view them that way or request a printed copy if they prefer it.

We view these changes very positively, as they enable cost savings to the company and a reduced environmental impact in the form of lower demand for printing paper. On the other hand, we have been anxious to maintain our absolute commitment to a high standard of shareholder reporting.

As you will know, we have this year supplied a succinct summary of the annual report – titled the annual review – to each shareholder. The full annual report has been available since mid-September on the company's website. We are pleased to see that most shareholders have not found it necessary to have a printed copy of the full annual report.

Governance and management

As indicated in the notice of meeting, three directors retire by rotation this year and are offering themselves for re-election. We will deal with this when we come to the formal agenda.

Detailed commentary on our governance regime is available in the annual report. There has not been any significant change to governance practices during the latest year. Nor has there been any change in the composition of the board.

It is appropriate, however, to signal that the board is likely to change in composition over the next couple of years. Under our governance guidelines, the standard term for a non-executive director is six years from the time they are first elected by shareholder resolution after the policy was adopted on 1 July 2003. The board has discretion to offer a further three-year term if that is considered appropriate.

Nevertheless the board believes some change is desirable in the interests of new talent and ideas and to meet good governance practice.

There has, of course, been significant change in management over the past year. As noted in the annual report, Jonathan's move into the CEO chair and the changes subsequent to that – and then the integration of Formica – have produced a substantially different look to the senior management group.

Of our five divisions, four have new chief executives. The new team is working together effectively, and the board is pleased that this has been achieved without any disruption to performance.

Finally on governance and management, I'd like to revert briefly to the Formica purchase. As noted in the annual review, an acquisition of this kind – with its size and international reach – brings a mix of opportunities and challenges.

A key challenge is to provide good governance across a range of geographies, legal jurisdictions, cultures and management styles. I can assure you that the board is particularly conscious of these matters. Strong governance and transparency of management performance have been key ingredients in the growth and success of the group over the past six years. They must continue to be so.

Employees

This is a natural point at which to express the board's thanks for the efforts of all Fletcher Building employees during the 2007 year.

While the company has enjoyed success over the past six years it has not bred any sense of complacency or inevitability. Continued success is achieved only through continued effort – so the company's track record is a reflection of all our employees' commitment and performance. The board recognises this, and puts on record its warm appreciation.

For our part we are also investing in people. We have a strong commitment to leadership development, using our own resources and in conjunction with major universities. You might have seen the content on these activities in the annual report. If not, I certainly commend it to you.

Health and safety in the workplace is a major priority. I am happy to report that our performance in this area continues to improve. There was a 32 percent decline in the group's lost time injury rate last year, to 6.5 per one million hours worked.

On the other hand, we accepted responsibility, and a fine, for the death of employee Esera Visesio in a workplace accident in 2005. A range of actions has been taken since this tragic event to make reparation to Mr Visesio's family, and to deal with the causes of the accident.

We continue to implement new initiatives to drive better safety performance, and this year we instituted a group-wide safety awards programme to provide positive incentives and recognition for excellence in safety performance.

Sir James Fletcher

Sadly, most of you will be aware that our esteemed predecessor Sir James Fletcher passed away in August this year.

It is hard to think of a word that conveys the richly-deserved respect and status commanded by Sir James. Perhaps the Maori word *kaumatua* comes close.

Sir James was an extraordinary man who had an immense impact on New Zealand's industrial and social landscape. He led Fletcher Holdings for 37 years to 1979, creating several new industries and employment for literally thousands of people. He was instrumental in creating and developing a range of businesses, many of which are still an integral part of Fletcher Building today.

Strategic direction

So ladies and gentlemen, while we are dealing with a range of complex issues, we are determined that Fletcher Building will be well prepared to face the challenges of the future.

We think it is likely that the Group will have a greater international presence in time. Already, about half of our revenue is now generated outside New Zealand.

However, future success will depend on how well we continue to identify and execute opportunities. We have in the last five years invested NZ$2.6 billion buying four major businesses from private equity. We see that trend continuing.

We believe that we generate value by taking quality businesses with strong market positions and good management from the turnaround phase to their growth phase. We are happy to let private equity do the physical turnarounds, and then acquire, grow the businesses and vertically integrate them into our own business to capture further synergies and revenue gains.

Fletcher Building is very well placed to continue on this growth path, given the significant levels of investment activity by private equity funds. While the tightening financial market is no doubt constraining some current private equity activity, we still envisage ongoing opportunities into the medium term from this avenue, and others.

We continue to believe that prudent acquisitions can supplement our organic growth initiatives. We have a set of long-standing acquisition criteria which has served us well. These are:

- the business should be complementary to our existing operations;
- it must have leading market positions and recognised brands;
- it must operate in a favourable industry structure;
- it should desirably have strong management in place; and

- it must possess attractive acquisition parameters and provide an early positive financial impact.

We are not in any way complacent about our ability to successfully make further acquisitions but we are confident that we have the people, the governance framework, the strategic focus, the knowledge and the skills to create and identify new opportunities, and over time to capitalise on them.

Trading Outlook

We are now at the point where I can comment on the trading outlook for the current year.

Our results are affected by market conditions in New Zealand and Australia, and – given the acquisition of Formica – by markets in North America, Europe and Asia.

In New Zealand, we anticipate a decline in new housing consents but also note that there is a backlog of housing work and unsatisfied demand for alterations and additions. Activity levels in commercial construction, and in infrastructure remain strong, and it is encouraging that our New Zealand construction backlog is at record levels of over $1 billion.

In Australia, residential markets vary state by state, while non-residential markets are generally flat. Infrastructure markets are expected to remain relatively steady with public infrastructure investment being a key driver.

The markets Formica serves in Europe and Asia are in good health, but the well-publicised weakness in the United States continues. Notwithstanding that the rationalisation is taking longer than expected, we are comfortable that the benefits will be realised. Overall we remain pleased with the acquisition.

Operating performance for Fletcher Building remains strong, and net earnings for the first four months are ahead of those at the same stage last year both with and without the inclusion of Formica's results.

It is too early to make a firm prediction of our results. Provided economic conditions remain as expected, I am confident we will report another satisfactory result. The consensus of most analysts' forecasts is for net earnings after tax and before unusual items to be in a range of $450 - $460 million. We are comfortable with this range of expectations.

On that pleasing note I conclude my comments.