Annual Shareholders' Meeting 2008

10.00 am Wednesday 12 November

Rangitoto Room
Langham Hotel
83 Symonds Street
Auckland
New Zealand

Chief Executive Officer's Address

FLETCHER BUILDING LIMITED

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Thank you Roderick, and good morning ladies and gentlemen.

It has indeed been a busy and challenging time since I stood here last year to report to you. As the chairman has outlined, we have had a strong operating performance, at a time when conditions have been mixed... and more recently we have seen momentous events in the global economy that will have a significant influence on the environment we operate in over the next few years.

I will talk firstly about the group's performance in the year under review, and then look at the way we are adapting to the changes going on in our markets. Lastly I will touch on what Fletcher Building is doing around sustainability.

Results overview

Our strategy of diversifying geographical and segmental exposure served us well again in the latest year.

Conditions in the New Zealand residential market softened throughout the year, while the commercial and infrastructure markets held up well. The group's Australian markets were softer overall, reflecting a general slowdown in the second half and ongoing weakness in New South Wales.

The sub-prime mortgage crisis in the United States had a well-documented effect on the US domestic housing market, and this had a marked impact on the newly-acquired Formica operations. Performance in North America was below our own expectations, exacerbated by the manufacturing issues in our Evendale plant. Formica's key European markets in the UK and Spain also softened, but there were better conditions in Central Europe, and the Nordic and Eastern European markets. The Asian markets remained in solid shape overall.

So it would be fair to describe the economic backdrop as a mixed bag... nevertheless, as the Chairman has already mentioned we turned in a record performance in terms of both net profit (excluding unusual items) and operating earnings.

Let me now comment briefly on the performance of each of our five divisions:

Building Products

The Building Products division lifted sales by 6 percent to $739 million, and operating earnings 5 percent to $148 million. That was despite its heavy weighting to residential markets, rising input costs – for example, for steel, aluminium and energy – and a negative impact from exchange rates.

Earnings from Insulation were up by 12 percent, including a full year's contribution from Forman Insulation. The metal roof tiles business lifted earnings 16 percent despite a rise in steel prices. Both the wallboards and aluminium windows and doors businesses saw declines in earnings driven by the downturn in the residential sector, while the sinkware and access flooring businesses performed well.

Capital investment included the start of construction of the new metal roof tiles plant in Hungary, and the acquisition of the DVS home ventilation business in New Zealand.

Distribution

PlaceMakers is highly correlated with the New Zealand housing market so it was not surprising to see its earnings affected by the residential slowdown, particularly in the second half of the year.

Sales continued to grow, but at a lower rate - 2 percent for the year compared to 11 percent in the previous year. Sales growth was supported by PlaceMakers' continuing store upgrade programme, but this also increased operating costs. Rising energy and labour costs coupled with margin pressure from heightened competition in the face of the declining market meant that operating earnings fell by 9 percent from $80 million to $73 million.

Infrastructure

Infrastructure increased its earnings for the seventh year in succession – by 14 percent to $308 million – despite a slight reduction in sales due to lower demand for building products in New Zealand.
Earnings from property-related activities were $80 million compared with $49 million in the previous year.

Lower demand in New Zealand impacted a number of the division's businesses – cement, aggregates, readymix concrete and masonry all recorded lower earnings due to volumes being down. The residential business had a major decline in earnings due to the drop in house sales.

Pleasingly, the New Zealand pipe business improved its earnings, with market development initiatives in precast concrete products producing a 24 percent growth in volume

The construction business continued to grow strongly, lifting operating earnings and finishing the year with a work backlog of $1.3 billion, up from the already healthy level of $775 million at the end of the previous year. Major contracts won in New Zealand included the Mount Eden Prison upgrade, the Eden Park redevelopment, the Manukau Harbour Crossing and the New Lynn Rail Trench.

In Australia, the concrete products and quarry businesses performed well, lifting their combined operating earnings from $47 million to $59 million.

Infrastructure invested $158 million in a wide range of capital projects with a strong emphasis on organic growth, and included land for a new cement port facility in Auckland, new quarry land, and new and upgraded plant across its businesses.

Laminates & Panels

Results from Laminates & Panels were impacted by the Formica acquisition at the start of the year. The acquisition doubled our revenue to $2.1 billion, while operating earnings from the division were up by 8 percent overall to $141 million.

The performance of Formica North America was impacted by two key issues. Firstly, US housing starts were 28 percent lower than in the 2007 financial year, and the customary offset from increased refurbishments did not eventuate. The US commercial sector was reasonably strong in the first half of the year, but fell away in the second half. So there was a big reduction – 9 percent – in Formica's sales of high-pressure laminates in the US market.

Compounding that, the rationalisation of Formica's North American manufacturing facilities – in which a plant in California was closed and its volume shifted to a refurbished Ohio plant – did not go according to plan, resulting in materially greater costs during the period.

These two factors, weak US demand and difficult plant rationalisation, had a significant impact on Formica North America's profitability.

It is important, though, to recognise that Formica North America is but one of our four high pressure laminate geographies. The other three – Europe, Asia and Australasia – all performed near expectations in the 2008 financial year.

We have made a series of management and other changes including the closure of Formica's corporate office in the US and the restructure of several business functions, with total savings of about US$10 million per year. I am pleased to report that the Ohio plant is now operating much better and closing in on the benchmarks we have set for that operation.

The European business performed well despite a reduction in volumes in Spain and flat conditions in the United Kingdom. Performance was stronger in the other parts of Europe where we operate.

The business also performed well in Asia, with volumes in Thailand and Taiwan in line with expectations, and continued strength in China ahead of the Olympics.

Laminex earnings in New Zealand and Australia were down as I have already mentioned. Sales grew, but the gains were offset by margin pressure and increased costs for manufacturing inputs and distribution.

New Zealand sales were constrained by the impact of one-off events – the closure of the Penrose hard board and soft board facility and the closure of the Taupo plant after the fire in 2006. MDF export volumes from Australia to South East Asia were down due to the rise in value of the Australian dollar against the US dollar.

Both Laminex and Formica have very strong emphases on product development, and this was again the main focus of investment across the division. New product launches included laminates with enhanced wear, structural properties and aesthetic qualities, along with fashionable designs and finishes.

Integration across the Laminex and Formica production base enabled substantial and ongoing efficiencies to be gained. The Formica plant in China took on production of high-pressure laminates previously sourced from Papakura, New Zealand. Just after the end of the year, the Formica product range was relaunched in Australasia.

Steel

The Steel division had a very good year, with sales up by 10 percent to $1.3 billion and operating earnings by 26 percent to $101 million. Results improved significantly in the second half, assisted by steel prices as well as the exit of unprofitable businesses, acquisitions in the Australian rollforming business and one-off gains on the sale of scrap.

The long steel business was affected by record price levels for its key raw material, ferrous scrap – only partly recovered through product price rises, but the Sims Pacific Metals joint venture lifted its operating earnings by 30 percent due to the high scrap prices.

The rollforming business had a good year in both New Zealand and Australia. New acquisitions Eziform Sheetmetals and Fair Dinkum Homes and Sheds performed well. Elsewhere earnings were impacted by market competition and restructuring costs.

The Steel division invested further to improve production at the Auckland steel plant, and made acquisitions in rollforming in Australia – Garage World and Shed Boss – towards the end of the year.

Current operating climate

That brings me to a close on last year's operating performance... I want to spend some time now on the ongoing task of positioning the group strategically, and especially on dealing with the changes in the current market environment.

As an international manufacturer and distributor of building materials and products, our businesses compete in markets that are very sensitive to changes in economic conditions. We operate cyclical businesses, the performance of which will vary depending on where they are in the cycle. That means we must constantly be aware of the group's competitive positioning, the strategies we are operating to and the way we are executing them.

Geographical and business diversification

In recent years, as you know, we have reshaped our strategic position by broadening the portfolio of businesses, with greater earnings reliability as the goal. This has been a deliberate policy to lessen our exposure to any one business or geography. As a result of the investments we have made over the past seven years, we now have a good balance between residential, commercial and infrastructure end markets, and a much broader geographical balance. This is illustrated by the graph up on the screen that shows that our estimated exposure to the New Zealand residential market, in terms of operating earnings, was just over a quarter at 26 percent, for the 2008 financial year.

Furthermore, you can see in this next graph that in the past financial year almost half – 49 percent – of our revenues came from outside New Zealand. That is up from 40 percent for the 2007 financial year.

Financial strength

The second point I would like to stress is the strength of Fletcher Building's overall financial position.

As the Chairman has indicated, we have initiated more conservative settings with regard to financial management and investment going forward. We will be maintaining the strength of our cash position, seeking to reduce working capital and capital expenditure. These are sensible adjustments in a market environment that is relatively volatile, but which no doubt will improve in time.

Importantly, we have a strong balance sheet with low levels of gearing – at 30 June 2008 our debt to debt plus equity ratio on a book basis was 40 percent – and interest cover for the same year was over 7 times. Furthermore, we have a debt maturity profile that extends out to the year 2020. As you can see from this next graph, our refinancing requirements in the next two years are modest, and we anticipate can be readily met by undrawn bank facilities, which stood at NZ$377 million as at 30 June 2008.

Responding to the current economic situation

So the group's fundamentals are strong. Fletcher Building is built on strengths and capabilities that have been tested through various economic cycles. Nonetheless, we have been actively pursuing cost savings across the business in response to the changes in volumes we are seeing. We have already undertaken a number of initiatives to ensure our business remain strong through the next challenging period. By way of example:

- We have reduced the number of shifts and staffing levels at plants where there has been a significant reduction in volumes;

- Increased raw material and transportation costs are being reflected in our product prices;

- Capital expenditure projects have been prioritised to ensure that only those with early paybacks and high certainty of returns under the current market conditions are invested in;

- We are aggressively managing our inventory levels across our various businesses;
- Other areas to reduce costs across the business are being pursued.

We have seen the total number of employees reduce since July. This has been achieved for the most part through natural attrition, reductions in temporary and casual staff, and reductions in overtime worked by permanent staff, but regrettably with some redundancies. We have also implemented an external hiring freeze, and are focused on filling vacancies that arise from within the Fletcher Building group.

At this point I would like to join with Roderick in thanking all of our people across the Fletcher Building Group for their efforts over the past year, in helping us achieve such a strong financial result, and for their continued commitment in these difficult times.

Investing for the future

While conditions across the world are demanding at present, we will continue to explore opportunities to invest further to expand our operations and grow our earnings. Indeed, we expect the next several years to produce some interesting opportunities and we will continue to assess areas of future growth and investment.

Sustainability

We have already commented on financial sustainability, now I'd like to share some thoughts with regard to the physical environment.

Our primary environmental focus is on CO2 emissions, and we have increased our focus on that issue over recent years. There is a range of very strong reasons for that – one being the ethical requirement to play our part in tackling the issue of climate change, another being the opportunity for product innovation to address market opportunities, another being to improve environmental performance in the context of plant upgrades that also benefit production and efficiency levels, and yet another being the need to adjust for regulatory changes.

In September, the New Zealand Government passed legislation introducing an emissions trading scheme (ETS). However, this may change with the election of the new government.

As presently legislated our businesses will be affected by the scheme from 2010 in three different ways:

- Golden Bay Cement and Pacific Steel will have a legal obligation to acquire and surrender emission units to cover their direct greenhouse gas emissions.
- Because these businesses are exposed to international trade, they will receive an allocation of free emission units to compensate for some of their increased costs.
- Other business units will simply be subject to increased energy costs, some of which they may be able to pass on.

Earlier this year, the Australian Government released a "Green Paper" on its proposed ETS, called the Carbon Pollution Reduction Scheme. This is also proposed to come into effect in 2010, although the proposals have not yet been set out in legislation.

We are well-advanced in our preparations for these regimes. For the last three years, we have reported our company-wide emissions to the Carbon Disclosure Project. For the last two years, these reports have been independently verified. We are also participating in the Australian Energy Efficiency Opportunities programme. We have a clear understanding of our emissions profile, and options for further reductions.

We have recently established a Climate Change and Environmental Sustainability Council. I chair this Council and members include the Divisional Chief Executives and other senior executives. The Council will ensure that we continue to set targets and develop further programmes for emissions reductions, as well as ensuring that we have appropriate strategies in place for purchasing carbon units as required.

These schemes will impose additional costs on our businesses from 2010. However, I am confident that there are opportunities for further emission reductions to be made, that will minimise these costs, and may in fact facilitate new initiatives and innovations within our business.

Let me conclude by reiterating a couple of key points.

First, we are operating in markets that are considerably tougher than they were a year ago, and this has meant that in some parts of our business we have had to size our operations in response to lower volumes. This is not unexpected given that we are a cyclical business. On the other hand, we do expect that our diversified portfolio of businesses and broad geographical exposure will stand us in good stead as we ride through the bottoming of the current cycle.

Second, we have a strong balance sheet and substantial long-term financing arrangements. Coupled with our strong cash flow, we are confident that we have the financial resources to be able to invest and grow our businesses. We will continue to look for selected opportunities to expand, reflecting the confidence we have in the long-term future of our industry.

That concludes my review of the fundamentals of our business and I will now hand you back to the chairman.

Thank you.