Annual Shareholders' Meeting 2008

10.00 am Wednesday 12 November

Rangitoto Room
Langham Hotel
83 Symonds Street
Auckland
New Zealand

Chairman's Address

FLETCHER BUILDING LIMITED

Annual Shareholders' Meeting 2008

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

I advise that a quorum is present and the meeting is duly constituted.

This year, for the first time, the meeting is being webcast via the Internet. I extend a warm welcome to those who are watching proceedings online.

Before commencing the business of the meeting, let me introduce my fellow directors.

Paul Baines has broad experience as a director with a range of business and other organisations, including The Todd Corporation, the Reserve Bank of New Zealand and the New Zealand Institute of Economic Research.

Hugh Fletcher has had a lifelong association with the company. His other directorships include Vector, Insurance Australia Group, Rubicon and the Reserve Bank of New Zealand. He is also Chancellor of the University of Auckland.

John Judge was appointed to the board during the year. He has considerable experience in Australasian business, and until his retirement last year was the Chief Executive of Ernst & Young New Zealand. He is Chairman of Te Papa Tongarewa and a member of both the Auckland and Otago University Business School advisory boards.

Jonathan Ling has been Chief Executive Officer and Managing Director since September 2006. He joined the company in 2003, having previously held senior management roles with Pacifica, Visy, Nylex and Laminex.

Geoff McGrath has had extensive experience in the building products industry, including 10 years as Managing Director of GWA International. He is now a non-executive director of GWA, and also chairman of Campbell Brothers.

Sir Dryden Spring is chairman of the ANZ National Bank and a director of several other companies, including Port of Tauranga, Sky City Entertainment Group and Northport. He previously had a long career as a leader in agribusiness, in which he served on the boards of a wide range of industry and government organisations.

Kerrin Vautier is a research economist who specialises in competition law and economics, a part-time senior lecturer at the University of Auckland, and a lay member of the High Court under the Commerce Act. She is also chair of the Advisory Board of the New Zealand Asia Institute, and adviser to the Partnership Board of Deloitte.

Ralph Waters is our former Managing Director, and became a non-executive director on his retirement in 2006. He is also a director of Fisher & Paykel Appliances Holdings, Fonterra Co-operative Group and Westpac New Zealand.

On my immediate right is Martin Farrell, our Company Secretary and General Counsel.

As is our custom, I will shortly give you my overview of the company's performance and the key areas of board focus during the 2008 financial year. Jonathan Ling will then address you about the operations of the company.

After that, we will take the opportunity for questions and discussion from the floor. I will outline the procedure for that part of the meeting as we reach it.

The formal proceedings this year comprise five resolutions, which are outlined in the notice of meeting. The resolutions will be decided by poll, and any questions from the floor will be dealt with before they are voted on.

The directors standing for re-election will also speak briefly before the relevant votes are conducted.

Overview remarks

We are meeting today in a period of profound economic and financial upheaval worldwide. We are witnessing great disturbances in global financial markets, and we are seeing this impact significantly on the economies in which Fletcher Building operates. This year, in addition to discussing the performance of the company for the year ended 30 June 2008, we would like to provide some comment on how we assess current trading conditions across the business and our view of the immediate prospects for the performance of Fletcher Building.

We will try to leave you with a balanced picture of the strengths and strategies of the Group, and the way we are moving forward in what are unusually challenging times.

I will come back to that after a brief review of the past year.

Financial results

As I have indicated in the annual review, Fletcher Building had its ability to continue to achieve earnings growth well and truly tested in the 2008 year. Economic conditions deteriorated sharply in some of our markets, and noticeably in most others. In these circumstances, we were satisfied with the overall performance of the company in achieving record operating and net earnings excluding unusual items.
Group sales were up from $5.9 billion to $7.1 billion, with most of the rise attributable to the newly-acquired Formica Corporation.

When unusual items are included, the 2008 net profit was down slightly on the previous year, from $484 million to $467 million. As you might recall, the previous year's result included unusual items totalling $85 million, of which $80 million was tax related.

When the results are normalised by excluding these unusual items, net profit after tax and minority interests was up from $399 million to $467 million in the latest year. Earnings per share on that basis were up from 84 cents to 93.2 cents.

The major variance against our expectations for the 2008 year was the performance of Formica, which was profitable at the operating level but well below expectations. As we have reported, Formica's performance was seriously affected by the downturn in the US housing and residential markets, and by manufacturing reorganisation costs in the US. Much work has been done to address the factors within our control and we have seen production performance improve markedly in the US. Apart from Formica North America, the overall financial performance of Fletcher Building was pleasing, with three of the five divisions increasing their earnings.

Shareholder returns

The 2008 result represented a 19 percent return on both average equity and average funds employed, which would generally be regarded as a strong performance.

It is a measure of our confidence in the overall positioning and financial strength of the Group that the board declared a final dividend of 24.5 cents per share. This increased the total dividend for the year from 45 to 48.5 cents per share, representing the 7th consecutive annual increase.

On the other hand, as with most listed companies, shareholders have suffered a substantial reduction in the value of their shares in the market place. For the first time in several years, the Fletcher Building share price finished the year well below its starting point, and this drove the total shareholder return into negative territory after a long sequence of strong performances. This is disappointing. However, it is in line with the share price movement of our peer companies operating in Australasia, reflecting the tougher conditions in the building products sector. All share markets have suffered major declines.

From an internal perspective there is not a significant difference between the Fletcher Building that traded in excess of $13 per share in June last year and the one that is currently trading at under $6. The principal change is in the external environment. The extreme volatility in global financial markets and the associated negative impact on economic activity has adversely affected actual and expected demand for building materials, products and services.

Markets and strategy

A company such as Fletcher Building operates in an environment which is the result of both national and international influences.

On the national front, New Zealand had a period of rapid productivity growth from the late 1980's until the early 2000 period. But of more recent times, a series of problems have accumulated as a result of

- New Zealand becoming gradually less competitive internationally on the taxation front;
- government spending rising rapidly and the previous fiscal surpluses being eroded to the point of elimination;
- debt levels rising too rapidly and inflation re-emerging as a major issue;
- the balance of payments current account deficit remaining obstinately high, indeed at a level which is one of the worst in the western world;
- numerous regulatory initiatives by the Government which while they may have been well meaning, have vastly increased the costs and complexity of doing business within New Zealand, in many cases for little apparent benefit; and
- the result of these problems has been that the New Zealand economy has less adaptability than previously and productivity growth has now sadly ground to a halt.

On the international front, the world credit crisis, of a scale unprecedented in our life times, has resulted in widespread interventions by many governments to prop up their banking systems and stimulate their economies. The results of these endeavours remain uncertain although it is now apparent that we are in the midst of a worldwide recession. New Zealand has been inevitably caught up in this turmoil and we now have many financial institution deposits guaranteed by the Government. While this was perhaps inevitable given the actions by the international community and in particular Australia, the distortionary effects are likely to be very severe and take time to play out. We have already seen the extension of the guarantee to bank wholesale borrowing, much of which is from offshore.

For companies like our own, this leaves major question marks over the role and competitiveness of the previously highly efficient corporate bond market which many companies rely on heavily. Many corporate bonds have risk profiles and interest rates which sit between those of banks and finance companies but that profile has now been distorted. These changes also leave much uncertainty around the potential severity of the economic slowdown we are now experiencing.

So how is the Group adapting and adjusting to the environment in which it is now operating? Jonathan will talk about this in more depth. But suffice for me to say that we are very conscious of the need to be prepared for ongoing demanding times by reducing costs vigorously; constraining capital expenditure; emphasizing the vital importance of cash flow; and maintaining a conservative balance sheet. With gearing around the 40 percent level and continuing strong cash flows, we retain the financial capacity and flexibility to invest in future growth but we will be suitably careful in the assessment of these opportunities.

Our strategic base is also sound – with excellent market positions, geographical and segmental diversity, a strong leadership team and a wealth of operating experience among our 18,500 employees. I have every confidence that, when the economic storm clouds pass, the group will be ready and able to prosper.

Governance and reporting

As indicated in the notice of meeting, two directors retire by rotation this year and are offering themselves for re-election. One director, John Judge, was appointed during the year and thus offers himself for election at this meeting. These matters will be dealt with under the formal agenda later in the meeting.

As noted in the annual review, it is likely there will be further changes to the board in the near future as we implement our plans to replace directors as they come to the end of their terms of appointment. We have had a stable and successful board, but we support the view that some change is desirable in the interests of introducing new talent and ideas.

Detailed commentary on our governance regime is available in the annual report and on our website. There has not been any significant change to governance practices during the latest year.

Employees

I would now like to thank the employees of the Group as a whole. It is through their enthusiasm and professionalism that we have been able to achieve the strong performance of the past year. We are conscious of the ongoing effort that will be required as the company faces the present difficult and uncertain operating conditions. I would like to place on record our warmest appreciation, for the diligence, commitment and performance of all our employees.

We will continue to take an active approach to fostering high levels of performance and employee welfare. The provision of safe working environments and the continued deepening of our talent pool are key priorities.

Outlook

Turning now to the outlook for the current year, it must be acknowledged that no-one can say how economic conditions will develop, or to what extent the worldwide slowdown will have further impacts on our markets.

Residential housing markets are in recession all over the developed world as we make the adjustment downward from a long boom driven partly by high levels of debt. As an example, housing consents in New Zealand in the past quarter were running at their lowest level in 25 years. Some of the slack might be taken up by housing alterations and additions, but this does not seem a strong prospect at a time when credit is tight. Australia has been similarly adversely affected and there is a real prospect of a continuing contraction in housing construction.

Commercial construction activity has also been affected in most of our markets, although not to the same extent yet as the housing sector. In New Zealand, we expect to see some contraction in the market overall from 2008 levels.

The key drivers in Infrastructure are longer-term in their nature – the need to cater for population growth and replace essential facilities, along with the availability of government funding. These have been strong in both New Zealand and Australia over recent years.

Forward commitments and ongoing public sector demand suggest that the outlook for this segment of our business remains relatively healthy for the next few years at least.

While our strategy of diversifying risk has been quite successful, the current reality is that just about all markets in the developed world are weak. Analysts who follow the Group are predicting a tougher trading environment, which is consistent with current conditions and with our own view.

Looking at the prospects for the year on a divisional basis, we expect Building Products and Distribution to report lower operating earnings than last year due to the slowdown in the residential housing market.

Infrastructure is also expected to report lower earnings, due principally to the NZ$80 million of property related gains which were achieved in the past year, which will not be repeated in the current year.

In the year to date, the Steel division has been performing strongly, reflecting the more favourable conditions in that market.

In the Laminates and Panels division, we anticipate an improved operational performance by Formica North America being offset by weakness in demand across most regions.

Current analysts' forecasts for net earnings after tax excluding unusual items for the full year are in the range from $289 million to $354 million. If current trading conditions were to be maintained throughout the remainder of the year then net earnings for the full year should be within this range. This spread is not unreasonable given the significant level of uncertainty in New Zealand and Australia and around the world.

It is the Board's present intention to maintain the dividend at the same cents per share rate as for the past year. However, this will clearly be subject to the financial outturn for the year as a whole.

Shareholders can be assured that your Board and management are focused on ensuring the company continues to meet the challenges of the current cyclical downturn. Our geographical and portfolio diversification, coupled with a strong balance sheet, should serve us well in the coming year, and leave us well placed to continue to grow our business in the future.

On that note I conclude my comments and thank you for your attendance.