Annual Shareholders' Meeting 2009

10.30 am Wednesday 11 November 2009

Dunedin Centre
Dunedin

Chairman's Address

FLECHER BUILDING LIMITED

Annual Shareholders' Meeting 2009

Good morning Ladies and Gentlemen. Welcome to the ninth annual shareholders' meeting of Fletcher Building Limited. It is with great pleasure that we are meeting here in Dunedin this year, as we celebrate one hundred years of Fletcher in New Zealand. Indeed, it is one hundred years to the day since James Fletcher handed over the keys to the first house he built in New Zealand, to Mr and Mrs Green of Broad Bay on the Otago peninsula, and we wanted to mark that occasion with holding the annual meeting in Dunedin.

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

As we did last year, this 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.

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 a councillor of the University of Auckland.

Alan Jackson was appointed to the board during the year. He has been an international consultant since 1987 with the Boston Consulting Group and has proven experience at the most senior levels of international and government business. He is a Fellow of the Institute of Professional Engineers.

John Judge has considerable experience in Australasian business including most recently as the Chief Executive of Ernst & Young New Zealand. He is a director of the ANZ National Bank and Chairman of the Accident Compensation Corporation, the Auckland Art Gallery Foundation, and Te Papa Tongarewa.

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.

Sir Dryden Spring is chairman of the ANZ National Bank and a director of several other companies, including Port of Tauranga, and Sky City Entertainment Group. 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.

Gene Tilbrook was appointed to the board during the year. Until his retirement in May 2009 he was Finance Director at Wesfarmers Limited and he led Wesfarmers' business development group. He is also a director of Transpacific Industries Group and Australian broadband company NBN.

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 adviser to the Partnership Board of Deloitte and chairs the Musica Sacra Trust.

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.

I would also like to extend a special welcome to two former directors, Paul Baines and Geoff McGrath, both of whom retired from the Board in June of this year and who have travelled here to Dunedin to attend this annual meeting.

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 2009 financial year.

Hugh Fletcher will then talk briefly about the history of Fletchers as we look back over the last one hundred years.

Following Hugh, Jonathan Ling will 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 eight 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

In looking back over the past year it is striking to reflect on the turbulence we have seen in world financial markets and the significant deterioration in the major economies around the world.

A year ago New Zealand had been in recession for some months, but elsewhere markets were just beginning to turn sharply downwards. Twelve months on, the extent of the correction is now evident. We have felt the impact through all parts of our operations in some shape or form. In particular, we have seen new housing markets fall significantly around the world, and much commercial activity has similarly declined sharply. Coupled with a constrained banking system, the effect has been a severely constricted construction sector. This has been alleviated only in part by increased government spending on infrastructure, particularly in Australia and New Zealand.

Against this backdrop, Fletcher Building has delivered on three priority areas during the year.

First, cashflow has been of paramount importance and tight management has delivered a very strong operating cashflow performance across the group.

Secondly, the company has ‘right-sized’ the business to ensure that the scope of operations is appropriate for the volumes it expects to see over the next few years

Thirdly, in response to the global financial crisis and the contraction in international banking markets, the company has further strengthened its balance sheet through the issue of new equity.

Combined, the successful implementation of these initiatives has ensured that Fletcher Building is strongly positioned for the future and in pleasing shape as it moves into its second century of operations.

Financial results

Against such a demanding macro-economic picture, Fletcher Building delivered a very creditable operating performance. Total revenues in New Zealand dollar terms were stable at $7.1 billion which is a good outcome given the decline in volumes seen in many of the group’s businesses.

The lower volumes we experienced across the group coupled with some significant increases in input costs explain in large measure why net earnings for the year, before unusual items, of $314 million, were down on the $467 million achieved in the prior year.

Whilst underlying earnings were down on the previous year, cashflow from operations was up 23 percent to $533 million compared with $434 million in 2008. This increase in cashflow was driven by a relentless focus on cash preservation, through tight working capital management and reductions in capital expenditure.

Shareholder returns

Excluding unusual items, the result for the year represented a 10.8 percent return on average equity and an 11.9 percent return on average funds employed. This is an acceptable return at what we would regard as the bottom of the cycle, and we expect this to lift again when the cycle turns and volumes increase.

Total dividends for the year were 38 cents per share, compared with 48.5 cents in the previous year. The reduced dividend has enabled cash to be retained in the business which the board considers appropriate in the context of the difficult market conditions and high level of uncertainty currently being experienced.

Total shareholder return – the movement in share price plus pre-tax dividends – for the year was 14.1 percent. This was a pleasing turnaround from the prior year and reflects a strong share price performance, underpinned by the actions we have taken to deliver sound operating earnings even in a depressed economic cycle.

Fletcher Building’s share price has performed strongly since the market bottomed in March of this year. Looking at the performance relative to other listed Australian companies in similar or related industries, Fletcher Building was the best performing company in the year to 30 June 2009 in terms of share price performance.

I mentioned earlier that one of the priorities for Fletcher Building this year has been to restructure our manufacturing operations and to reduce capacity, in the face of significant declines in volumes. These initiatives, coupled with the impairment of certain assets, led to an unusual charge of $360 million being incurred for the year.

A number of these unusual items will benefit the company over time. In particular, the restructuring and capacity reduction initiatives will ensure that all our key businesses are able to operate profitably at current volumes and will benefit significantly when markets recover and demand grows.

Much of the restructuring and capacity reduction activities have now been completed. In particular two uneconomic Laminex plants have been closed, and actions to reduce capacity at the Formica plant in Bilbao in Spain are underway.

The annual appraisal of balance sheet carrying values identified certain tangible and intangible assets whose carrying values have been permanently impaired. Most of the impairment charge arose in the Laminates & Panels division. The adjustments to the carrying values were non-cash in nature and represented just under 3 percent of the group's total assets as at 30 June 2009.

It is important to stress that all business divisions undertook restructuring initiatives during the year, and the total workforce was reduced by 2,500 people to 16,500. The reduction in employees was unfortunate but necessary, given the significant volume declines experienced by the business.

The difficult economic conditions and the need to restructure the business has been very demanding for our people this year. On behalf of the board I would like to acknowledge formally the substantial contribution made by all our staff across the Fletcher Building group in meeting the challenges posed by the economic downturn, and thank them for helping us end the year in such good shape.

In response to deteriorating global economic conditions, and in particular the complications in the international finance sector, the decision was taken in April to raise additional equity. This was undertaken by way of a share placement to institutional investors, followed by a share purchase plan and a top-up offer for those shareholders who did not receive an offer to participate in the placement.

The offer of shares was extremely well supported, and at the conclusion of the three tranches, $526 million of new equity had been raised. The proceeds from the equity raising were used to repay group borrowings.

Great care was taken to ensure that as many shareholders as possible received the opportunity to participate in the equity raising. It was especially pleasing to see such strong support for the issue from non-institutional shareholders. While this meant that applications under the share purchase plan had to be scaled back, the vast majority of non-institutional shareholders were able to increase substantially their shareholdings and as such were not diluted by the issue of shares to institutional shareholders.

The equity raising was structured in such a way as to minimise the market risk by executing the institutional placement over the period of one day, while allowing time for participation by all other shareholders. It is worth reflecting on how volatile financial markets were in the first quarter of 2009, and the equity raising was undertaken in a way that successfully mitigated the risks of what would otherwise have been a lengthy share issue process.

As a result of the equity raising, the ratio of net debt to net debt plus equity has now reduced to 30 percent. This is a conservative level and below our target gearing range of 40 to 50 percent, but given the uncertainty surrounding the timing and the extent of any recovery, this is seen as appropriate in the current environment. The significant increase in the share price since the capital raising reflects in part the stronger financial position of the company.

Changes to the board

As indicated in the notice of meeting, two directors retire by rotation this year and are offering themselves for re-election. A further two directors, Alan Jackson and Gene Tilbrook were appointed during the year and thus offer themselves for election at this meeting. These matters will be dealt with under the formal agenda later in the meeting.

As I have already mentioned, two directors retired from the board this year in accordance with planned succession arrangements. The board records its warmest appreciation to Paul Baines and Geoff McGrath for the major contributions they have made to the governance and oversight of Fletcher Building.

As indicated earlier in the year I will also retire from the board on the 31st of March 2010. It is the board's intention that Ralph Waters will be appointed chairman, and I warmly endorse that move.

Whilst I will not be retiring from the board of Fletcher Building for a few more months, this is the last time I will have the opportunity to formally address shareholders at the annual meeting. I would like to convey my thanks to the board and management not only for their personal support to me during my 16 years as a director and 11 years as Chairman but also for their splendid contributions to the governance and progress of the company over the past eight years. It has been a great privilege to be Chairman of a company with such a long and deep history here in New Zealand.

I note with both satisfaction and pleasure that when Fletcher Building was re-listed on the NZ stock exchange in 2001 it was the 17th largest listed company in New Zealand. Today it is number one. That is a fitting endorsement of the strategies we have embarked upon to grow the business here in New Zealand, in Australia and further afield.

Outlook

Turning now to the outlook for the current financial year, we remain cautious with respect to trading conditions for the balance of 2010. While volumes in most markets have been relatively stable over the past few months, we have yet to see any significant signs of a recovery in any of our markets. Moreover, we believe that any recovery will be gradual rather than rapid. It should be noted that some of the countries in which we operate continue to exhibit severe vulnerabilities including unusually large fiscal deficits, high unemployment, and in some cases huge balance of payments current account deficits. New Zealand shares some of these problems and one should not be sanguine about the challenges we face as a nation in getting back to sustainable and positive economic and productivity growth.

As far as the company is concerned, and looking at each division in turn, our assessment of performance in 2010 would be as follows.

In Building Products we anticipate stronger earnings from the insulation business due to the impacts of the government stimulus programmes in Australia and New Zealand, which should more than offset weaker volumes in plasterboard.

Distribution will continue to trade at subdued levels whilst the market for new residential dwellings in New Zealand remains at present levels. Any pickup in the level of house building activity should lift performance commensurately.

The Infrastructure division continues to see good work flows from government sponsored engineering and construction projects in New Zealand. However weaker residential and commercial construction markets will continue to impact negatively on concrete and related product volumes. In Australia, the picture is similar and the performance there will depend on how the residential and commercial construction markets perform.

In Laminates & Panels, we expect to see an improvement in operating earnings due to the benefit of capacity rationalisation and other cost reduction initiatives. In Australia, Laminex expects demand to remain subdued in the commercial sector while the outlook for residential is uncertain.

For Formica, volumes in North America are anticipated to remain at low levels in both commercial and residential, and Europe is expected to stabilise but not improve materially. We do expect to see further growth this year in Formica's Asian operations.

For Steel, we have previously indicated that earnings will be lower this year compared with last year, due to lower volumes and prices.

Current analysts' forecasts for net earnings after tax, excluding unusual items, for the full year are in the range from $261 million to $340 million. Based on current trading performance, and assuming no further deterioration in key markets, net earnings should fall within this range. However, without a sustained recovery in volumes, net earnings would likely be at the lower end of the range.

It is the board's present intention to pay a total dividend for the year of twenty eight cents per share, being the annualised rate of the second half dividend in the 2009 year of fourteen cents per share. However, this will be subject to the financial outturn for the year as a whole.

In conclusion, let me reiterate that the actions we have taken over the past year have left the company in a very strong position to see out the current cyclical downturn, and of equal importance, to benefit when construction activity levels improve. While it is too difficult to predict accurately the timing and pace of any recovery, we are confident that we will be able to respond effectively as economic conditions around the world recover.

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