FletcherBuilding

2010 Annual Shareholders' Meeting

10.30 am Wednesday 17 November 2010

Eden Park
Auckland

Chief Executive Officer's Address

FLETCHER BUILDING LIMITED

Annual Shareholders' Meeting 2010

Good morning ladies and gentlemen.

I would like to add my own words of welcome to you. It is indeed a pleasure to be meeting here today at this magnificent new grandstand, proudly built on budget and ahead of time by Fletcher Construction.

The 2010 year undoubtedly had its challenges as we confronted mixed fortunes in many of our key markets. In that context, the financial and operational performance of the Fletcher Building group was strong, and there is no doubt that the group is extremely well positioned.

Before talking about our strategic priorities for the future, I will briefly review our divisional performance of the 2010 year. You will find much more detailed information in the Annual Report and on our website.

The Building Products division enjoyed buoyant trading conditions in the first half of the year, due in large measure to the surge in insulation volumes experienced in Australia with the Government's home insulation package. The sudden termination of the scheme in February saw earnings momentum drop away in the second half. However, a gradual improvement in plasterboard volumes and strong growth in our roof tiles business helped to partially offset this.

In our Distribution division, PlaceMakers benefitted from the increase in residential building activity which picked up from the trough experienced in 2009.

In the Infrastructure division, volumes for cement and concrete products in New Zealand were all down on the prior year due to the decline in commercial construction activity and the completion of several large infrastructure projects. Demand for concrete and quarry products in Australia was also mixed, with pipe volumes down, but growth experienced in other areas such as railway sleepers and telegraph poles.

Our construction business had another strong year, driven largely by government infrastructure spending and Rugby World Cup related projects such as this Eden Park stadium. At the end of October the construction backlog was $835 million, and there was a further $400 million of work for which Fletcher Building is the preferred contractor or in final contractual negotiations. These figures do not include any rebuilding as a result of the Canterbury earthquake.

Interestingly, despite a subdued residential property market in New Zealand, house sales in Fletcher Residential were up on the prior year with stronger margins. This reflects in particular the quality and location of the Stonefields subdivision at Mount Wellington in Auckland where sales have been strong.

2010 saw a dramatic turnaround in the performance of the Laminates & Panels division. This was driven by the restructuring and cost-out programmes which were commenced in 2009 and which carried on into 2010, in both Laminex and Formica. In Australia, Laminex benefitted from the growth in residential construction activity and from the government's stimulus programme targeting new school facilities. Formica encountered stabilising markets in North America and Europe but with little recovery in volumes. Asia demand continued to grow steadily and manufacturing volumes have now almost filled our total production capacity available in Asian markets.

As expected, the Steel division's earnings returned to more typical levels after an exceptionally strong result in 2009. Demand fell from the high level seen in 2009 and pricing came under pressure due to excess steel inventory globally.

Health and Safety

A key focus for management over the past several years has been on lifting the group's performance in the area of health and safety. As a result of this focus, we have seen our key metrics improve significantly. For instance, the total recordable injury frequency rate fell by over a half, to 11.24 injuries per million hours worked, from 23.8 in the prior year. This is a remarkable reduction from the 2006 figure of nearly 60.

Our lost time injury frequency rate has also reduced significantly, from 5.8 to 3.4 injuries per million hours worked.

We remain committed to reducing these measures further, in line with our goal of "Zero harm" and the belief that all accidents are preventable.

Tragically, one of our employees on a construction site in Samoa lost his life during the year, a reminder that we have more to do yet in the health and safety area.

Climate Change

On 1 July of this year New Zealand's Emissions Trading Scheme came into effect. We welcomed its introduction, and in particular the certainty we now have as a leading manufacturer here in New Zealand. Fletcher Building has been preparing for the introduction of the emissions trading scheme for some time, and is well placed to handle its impacts. Our cement plant at Golden Bay is the group's largest emitter of carbon dioxide, and the team there has been doing an excellent job of using wood waste as a renewable fuel to substitute for coal to reduce carbon dioxide emissions.

Fletcher Building has committed to reducing its carbon dioxide emissions by five percent from their 2008 levels, by 2012, and we are on track to meet this goal.

It is also worth reminding shareholders that Fletcher Building is one of New Zealand's largest recyclers. Every year we turn thousands of tons of scrap metal into steel rod and wire at our Pacific Steel plant. Further, Pink Batts insulation is manufactured mainly from recycled window glass

Strategic Priorities

Let me now turn to the year ahead. Our strategic focus remains consistent with what we have outlined for a number of years now. Fundamentally our goal is one of earnings reliability to be achieved through growing our businesses organically and through selected acquisitions where these meet our investment criteria.

Despite our appetite for further growth in Australasia, very few assets of size and significance have either been available for acquisition or fall within our strict value creation requirement.

In view of this, we have increased our emphasis on organic growth opportunities for our existing businesses. We are also pursuing smaller acquisition opportunities in adjacent businesses where this makes sense. An example of the latter is the acquisition of Australian Construction Products in Australia in August. The purchase of this company will allow us to expand our presence in road safety barriers into Australia from our existing strong New Zealand base.

A further aspect of our organic growth strategy is the continued review of our existing businesses and implementation of business transformation initiatives. We have already seen these implemented successfully in both Formica and Laminex and the transfer of that knowledge and experience to other businesses within the group is ongoing.

While Australasia remains the principal geographic area of focus for future growth, other territories have been identified for expansion. For example, Formica is scoping out prospects in China and South-east Asia to establish additional manufacturing capacity, given their existing plants in the region are virtually at full capacity. Formica is also continuing to develop markets in other areas such as India, Russia and Mexico.

Our roof tiles group has seen very strong growth in demand in Africa, and production at the recently established plant in Hungary has been rising to meet demand for the African market as well as increased sales within Europe itself.

In Australia, we are undertaking a major capital investment at the Laminex MDF plant at Gympie in Queensland, which will enable Laminex to bring new products and finishes to the market.

Here in New Zealand, we have established a new venture in Kumeu, West Auckland, recycling construction materials waste. We see this as a logical extension of our existing business associated with quarry end-use and landfill management.

These are good examples of how we are seeking to grow by extending our business geographically or into adjacent product areas.

What this translates to in financial terms is an increase in capital expenditure for the year. In the 2010 year capital expenditure was $191 million, and this is projected to increase to $322 million in the 2011 year as we pursue the small acquisitions and other growth oriented projects I have mentioned.

Canterbury

Before handing back to the Chairman, I would like to comment on two significant factors that will influence the New Zealand building materials market over the next few years.

The first and more immediate of these is the rebuilding of Canterbury following the September earthquake. We expect significant repairs and rebuilding of affected homes to gather pace in the first half of 2011 as the construction industries mobilise for the reconstruction effort. This will be accompanied by rebuilding of commercial properties and key infrastructure, over a longer time frame.

Fletcher Construction has been selected to undertake the project management of more than 50,000 repairs to residential properties in the range of $10,000 to $50,000 for the Earthquake Commission in Canterbury. This is an enormous undertaking, and will take time to achieve. We have in place teams of people from across the business which are establishing the necessary infrastructure to allow repair and rebuilding work to occur. Procuring builders, trades people and suppliers to get the repair job done, and done properly, is our priority and we are absolutely committed to “making things right” in Canterbury.

Whilst it is important for the work to get under way as quickly as possible, it is also vital that systems are set up to ensure that claims are dealt with efficiently and resources are managed effectively. We have made good progress with the first project management site office having been established, and more than 1500 registrations of interest from contractors and 300 from suppliers. The necessary accreditation process is now under way.

In addition, Fletcher Construction in a joint venture with McConnell Dowell is negotiating with the Christchurch City Council to undertake infrastructure remediation work in three of the quake-affected areas of Christchurch. This will include reinstatement of wastewater pipes, sewer mains, water mains and storm water pipes, as well as road repairs including footpaths and lighting, and has a value estimated by the Christchurch City Council of $190 million.

Leaky homes

The second issue confronting New Zealand is the remediation of tens of thousands of homes that are not currently weather tight. The programme outlined by the government to remediate some 40,000 to 80,000 so called “leaky homes” will have a significant impact on the building industry over the next decade. The cost of this is estimated to be $11 billion. We expect this scheme to get underway in the first quarter of calendar 2011.

Let me conclude with the following observation. While the short term outlook isn’t entirely clear, and predicting results from month to month is more an art form than a science at the moment, we are confident that the medium and long term prospects for the business are excellent.

Thank you very much for your attention.