FletcherBuilding

2010 Annual Shareholders' Meeting

10.30 am Wednesday 17 November 2010

Eden Park
Auckland

Chairman's Address

FLETCHER BUILDING LIMITED

Annual Shareholders' Meeting 2010

Good morning ladies and gentlemen.

Welcome to the tenth annual shareholders' meeting of Fletcher Building Limited. We are proud to be meeting here at Eden Park, in this marvellous new South Stand which was completed just a few weeks ago by Fletcher Construction.

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.

Tony Carter joined the board in September of this year. He is currently managing director of Foodstuffs (Auckland) Limited and has extensive experience in retailing, including as a previous director and later chairman of Mitre 10 New Zealand Limited. He is also a non-executive director of Vector Limited and has been appointed to the board of Air New Zealand from next month.

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 last 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 and the Auckland Art Gallery Foundation.

Jonathan Ling has been Chief Executive Officer and Managing Director since September 2006. He joined the company in 2003, as chief executive of Laminex having previously held senior management roles with Pacifica, Visy, and Nylex. He is also a director of ASB Bank.

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

Kerrin Vautier is a research economist who specialises in competition law and economics, and is a lay member of the High Court under the Commerce Act. She is a director of the Reserve Bank of New Zealand, chairs the Musica Sacra Trust, and has recently been appointed as chairman of the Auckland City Mission.

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 2010 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 when we reach it.

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

Each of the directors seeking your support for their continuation as a director will also speak briefly before the relevant votes are conducted.

Overview remarks

Ladies and gentlemen, it gives me great pleasure to address you for the first time as the Chairman of Fletcher Building.

Looking back over the 2010 financial year, the after-effects of the global financial crisis continued to impact the performance of many of the economies in which we operate, and this had a flow on effect to our business. Against this backdrop, the performance of the group overall has been strong.

In New Zealand, the economy emerged from recession, but it was a tentative recovery. New house consents improved from the trough of last year and we finished the year with consents running at an annualised rate of sixteen thousand. This is well below the long term average of nearly twenty four thousand. Commercial construction activity declined significantly over the year. However, infrastructure work, most of it government funded, has continued to underpin the New Zealand construction market.

Australia experienced far more buoyant conditions driven by the strength of the resources and mining sectors in particular, but there was some variation in economic performance within the states. Western Australia, Victoria and South Australia have had strong markets for building materials, as did northern Queensland, while South-Eastern Queensland and New South Wales had more mixed outcomes.

Further afield, South East Asia and China continued to experience strong growth, while the US and Europe stabilised overall but did not see any significant improvement in volumes.

The theme of our annual report this year is strength through diversity, and there is no doubt that despite the mixed economic conditions around the world the company has performed well. The restructuring and cost reduction initiatives we undertook in 2008 and 2009 have delivered a very positive contribution to our earnings performance in 2010.

Financial performance

You will all have received by now our annual review and have had a chance to review the financial performance of the company for the year, but let me briefly recap the key aspects of the result.

Total group sales were down on the prior years. In part this was because of lower volumes in some of our major markets. It was also partly a result of a higher New Zealand dollar which affected the translation of revenues and earnings.

Net earnings before unusual items were broadly in line with the prior year, but the composition was markedly different. We saw a significant improvement in earnings in the Laminates & Panels division as a consequence of the restructuring and cost reduction initiatives undertaken. On the other hand, Steel's earnings fell back to more typical levels after a surge in earnings in 2009 driven by particular market circumstances which are unlikely to occur again in the near term.

A continuing feature of our result over the past two years has been the strong operating cash flows, driven by tight management of both working capital and capital expenditure. Operating cash flow for the year was $522m, which was comparable to that achieved in the prior year.

The strength of the group's cash flow has enabled further reduction in total debt. At the end of June, gearing – that is, the ratio of net debt to net debt plus equity, stood at 27 percent, down from 31 percent at the end of 2009. Today the group has significant financial resources available, with over $1 billion of undrawn bank facilities on hand.

While our target gearing range has historically been 40 to 50 percent, the board has felt it prudent to maintain a lower level than this range given the continued uncertainty around financial markets and the term debt market in particular. This will continue to be monitored and once it is clear that markets have reached long term stability then a review of capital structure will be undertaken.

The total dividend for the year was 29 cents. Our dividend guidelines remain unchanged and it is the board's intention to pay a steady and ever increasing dividend in line with the group's earnings performance.

Total return to shareholders in the year to 30 June 2010 was almost 25 percent, driven by a strong share price performance and the dividend. This compares favourably with other comparable building materials companies in Australasia.

Board changes

A process for refreshing the board was initiated several years ago and is now well advanced. As part of this process, Roderick Deane retired as Chairman in March of this year, and more recently Sir Dryden Spring retired as an independent director at the end of September. In addition, the board was joined in September by Tony Carter. Tony will address you later in the meeting.

On behalf of the board, I would like to pay tribute to both Roderick and Sir Dryden for their significant contributions to the group over many years. Roderick was a director and then chairman of Fletcher Challenge, and in that capacity oversaw the restructuring of Fletcher Challenge and the formation and separate listing of Fletcher Building. Sir Dryden also originally joined Fletcher Challenge and helped oversee the evolution of Fletcher Building. When it first listed as a separate entity in March 2001, Fletcher Building was the seventeenth largest listed company on the NZ stock exchange and today it is number one. This is a very fitting endorsement of the contributions of both Roderick and Sir Dryden to the company over that time.

People

At this point I would like to acknowledge, on behalf of the board, the enormous contribution made by the sixteen thousand Fletcher Building employees around the world over this past year. The excellent operating and financial results are a testimony to the commitment and professionalism of our people in what has been a challenging year for the group. Thank you for your efforts in serving our customers and communities.

I will now turn to the outlook for the 2011 financial year.

Outlook

We have had for some time now a cautiously optimistic outlook for the year ahead, and that remains our view today. Around the world there is conflicting data as to the extent to which the worst of the global financial crises is behind us, and the pace with which economic conditions are expected to improve.

Starting with New Zealand, we expect residential house building activity to continue to pick up from the weak levels of a year ago, but to remain below the long run average for another year or two. A recovery in commercial construction activity is expected to lag behind any pick up in the residential market.

However, as Jonathan has mentioned the impetus for growth in the market will come from the rebuilding of Canterbury following the earthquake of two months ago, and the government's scheme to facilitate the remediation of tens of thousands of leaky homes.

Infrastructure spending by the government is forecast to be lower this year due to the timing and implementation of larger projects, but we expect to see this pick up materially in the 2012 financial year.

In Australia, we expect conditions to remain relatively favourable driven by the continued strength in the mining and resources sectors. However, housing starts and commercial construction activity levels will depend upon the relative strengths in each of the state economies. Consequently we expect to see some variation in economic performance state-by-state. Government investment in infrastructure is anticipated to remain strong.

Further afield, we expect South East Asian markets and mainland China to continue to grow strongly, while North Asian markets are likely to remain subdued. European volumes overall are not expected to show growth. In North America, our businesses are well placed for any pick up in volumes but there remains considerable uncertainty as to the timeframe for a sustained recovery in the US.

In terms of earnings for the 2011 year, the analysts' consensus range for net earnings after tax is wide, ranging from $311 million to $405 million, with an average of $357 million. The wide divergence can be explained by differences in macro-economic forecasts, especially for New Zealand, and varying assessments of the likely financial impact of the Canterbury earthquake rehabilitation on our domestic New Zealand businesses.

The start of the 2011 financial year has been pleasing, with group performance in the first four months in line with budget and ahead of the same period in both the first and second halves of the 2010 financial year. Assuming a continued gradual improvement in New Zealand construction volumes, robust economic performance in Australia and Asia, and stable markets in aggregate across Europe and North America, we expect net earnings to be well within this range of analysts' expectations, and broadly in line with the average of analyst's consensus estimates.

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