Annual Shareholders' Meeting 2011

10.30 am Wednesday 16 November 2011

SkyCity Convention Centre
Auckland

Chairman's Address

FLETCHER BUILDING LIMITED

Annual Shareholders' Meeting 2011

Good morning ladies and gentlemen. Welcome to the eleventh annual shareholders' meeting of Fletcher Building Limited.

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

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.

Directors

Tony Carter joined the board last year. He was until his retirement last year managing director of Foodstuffs (Auckland) Limited and he 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, Air New Zealand, and Fisher & Paykel Healthcare, chair of the New Zealand Institute and a trustee of the Maurice Carter Charitable Trust.

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 a member of the Australia and New Zealand advisory board of L.E.K. Consulting and a trustee of the New Zealand Portrait Gallery.

Alan Jackson was appointed to the board in 2009. 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 chairman of Housing New Zealand Corporation, a director of New Zealand Racing Board and a trustee of The Icehouse Auckland.

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, and a member of the Otago University Business School advisory board.

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 and a member of the Business Council of Australia Sustainable Growth Taskforce.

Cecilia Tarrant joined the board in October of this year. She is an Executive-in-Residence at The University of Auckland Business School and has over 20 years' experience in international banking and finance in the United States and Europe. She has worked as a real estate finance lawyer and as an investment banker, and was a managing director in Morgan Stanley's Global Capital Market Group in London. Cecilia is a Trustee of The University of Auckland Foundation, and a director of the Government Superannuation Fund Authority.

Gene Tilbrook was appointed to the board in 2009. 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 QR National, GPT Group, and the Australian broadband company NBN, and a councillor of Curtin University of Technology.

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

Meeting Agenda

I will shortly give you my overview of the company's performance and the key areas of board focus during the 2011 financial year.

Jonathan Ling will then address you about the operations of the company and will discuss the trading outlook released in October. After that I will provide an update on how we expect the company to perform in the 2012 financial year, and we will then 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 six resolutions, which are outlined in the notice of meeting. The resolutions will be decided by poll. Any questions from the floor will be dealt with before they are voted on.

2011 a milestone year

The past year has been another milestone year for Fletcher Building. In March, we marked our tenth anniversary as a separately listed company. Since listing, Fletcher Building has consistently outperformed both the New Zealand stock exchange index of the top fifty companies, and the Australian stock exchange index of the top two hundred industrial companies. As you can see from the chart, long term shareholders in Fletcher Building have enjoyed strong returns over time.

Also during March, we moved to majority ownership of Crane Group, and subsequently completed the full acquisition and integration of that company.

With Crane, we have now achieved the revenue and earnings diversification that we sought from the time of our separate listing in 2001. Today, we derive more of our revenues from Australia than in New Zealand.

Also, with the acquisition of Crane, Fletcher Building has become the largest building materials company in Australia, both in terms of revenues and market capitalisation.

Jonathan will talk later in this meeting about how Crane has been performing since we acquired it. We achieved another milestone during the year, following the acquisition of Crane, when Fletcher Building gained inclusion for the first time into the Standard & Poor's ASX top 200 companies index.

Responding to the challenge of Canterbury

One of the outstanding achievements during the year has been Fletcher Building's response to the earthquakes in Canterbury. Working with the Earthquake Commission, we have established Fletcher EQR – which stands for Earthquake Recovery – an organisation that is project managing an estimated one hundred thousand repairs for the Earthquake Commission. Today it employs some 400 people, and has established 19 hubs throughout the city of Christchurch and surrounding districts.

The progress to date has been remarkable, particularly given that the original programme devised post the September earthquake had to be drastically altered as a result of the earthquake in February.

One issue hampering progress in the rebuilding of Canterbury is the difficulty in obtaining insurance for new construction work. The recent earthquake on 9 October has further exacerbated this problem, and it is becoming urgent that a solution be found to the insurance impasse so that reconstruction efforts can be accelerated.

During the course of the year, in response to the earthquakes, Fletcher Building pledged a total of $6 million to assist with heritage and community projects in the city of Christchurch and surrounding towns.

Among the projects which we have supported to date has been a donation of one million dollars to aid in the preservation of the façade of the historic McKenzie and Willis building in central Christchurch. Materials to the value of two hundred and fifty thousand dollars were donated to the construction of the Westpac business hub in Addington, and fifty thousand dollars has been donated to the Royal Court Theatre to help in the development of new premises.

We were also pleased to be a key supporter of the highly successful Christchurch Arts Festival, which took place in August and September this year.

Various other donations of materials and cash have also been made to support the repair and rebuilding of community facilities.

Overview remarks

Before reviewing the company's performance for the 2011 financial year, I would first like to make some comments about the broader economic environment.

Economic conditions over the past year have continued to be challenging. In New Zealand we were hopeful of a sustained pick-up in economic activity, but this was not the case. Indeed, the March quarter of 2011 was the lowest level of housing consents ever, since records began. With interest rates at 45 year lows, and weak demand for new housing, it is difficult not to conclude that consumer confidence has yet to recover.

Commercial building levels improved in some sectors, but total activity was flat overall. Government funded infrastructure work continued to underpin the construction industry in New Zealand.

In Australia conditions were relatively strong in the first half but deteriorated in the second half, with the rate of new residential consents falling significantly. The government stimulus programme around school building has benefitted the building sector, as have first home buyers grants in Victoria, but as these have been completed or phased out, volumes have declined significantly.

Neither the United States nor Europe had any improvement in underlying economic activity, and the turmoil in Europe that we have seen throughout this year has undermined consumer and business confidence. Pleasingly, our key markets in Asia -China and South-East-Asia - have continued to achieve strong growth.

Financial Performance

We announced our results for the 2011 financial year in August, and by now you will have read the commentary in the annual review or annual report so I don’t propose to go over the last year’s financial results in detail.

However, it is worth recording that the 2011 financial year was a strong one for the group, despite the economic headwinds I referred to earlier.

Net earnings were up four per cent to $283 million after accounting for a number of unusual items totalling $76 million after tax. These related primarily to write downs in our Australian insulation business, and the costs associated with the acquisition of Crane.

Net earnings before unusual items were $359 million, which were up 19 per cent on the prior year, and this was due to the strong management performance in difficult conditions.

Strong growth in earnings per share before unusual items was also achieved, up 15 per cent to 57 cents per share

Divisional earnings

Operating earnings – earnings before interest tax and unusual items, were up 19% on the prior year. Pleasingly, all divisions recorded increased operating earnings with the exception of Building Products, due to the difficulties in the Australasian insulation industry. Included in the result were three months of earnings from Crane, which were in line with our expectations.

Dividends – Total shareholder return

The total dividend for the year was 33 cents, an increase on the prior year dividend of 29 cents. Our dividend guidelines remain unchanged and it is the board's intention to at least maintain the dividend each year in line with the group's earnings performance, with the dividend to rise over time commensurate with further earnings growth.

Total return to shareholders for the year to 30 June 2011 was 14 per cent, driven by share price appreciation and dividends paid. This was a pleasing result given the difficult macro-economic conditions I referred to earlier, and the adverse impact on our New Zealand businesses from the Canterbury earthquakes. In relative terms this is a very strong result, with Fletcher Building outperforming all but one of the sixteen of its peer companies across Australasia and ranking in the top quartile for total shareholder returns against the relevant benchmark.

Board changes

A process for refreshing the board was initiated several years ago and is now well advanced. As part of this process, Kerrin Vautier retired as an independent director at the end of August. Kerrin has had a very long association with both Fletcher Challenge and Fletcher Building, stretching back over twenty years, and I would like to formally acknowledge here today the very significant contribution she has made to Fletcher Building over the past decade.

With Kerrin's retirement, Cecilia Tarrant joined the board in October. Cecilia will address you later in the meeting.

This year, Jonathan and I retire by rotation and offer ourselves for re-election. Jonathan will talk with you shortly, but at this point I will now speak briefly in support of my re-election.

It is now more than a decade since I first came to New Zealand to be chief executive of the newly floated Fletcher Building. Although I returned to live in Sydney after I retired as chief executive in 2006, my wife would argue that I still live in New Zealand as I have an apartment here and I am usually in New Zealand three times a month with directorships at Fonterra and Westpac New Zealand as well as Fletcher Building. I am also a director of Woolworths in Australia which owns the Countdown chain here in New Zealand, so across those four businesses, I do have a unique view of how the New Zealand economy is travelling, an opportunity to compare matters like executive remuneration, financial disciplines, corporate governance standards and much more. My Australian base and corporate involvement there is also important to Fletcher Building as now more than half of the company's revenue is derived from Australia and that country also accounts for a substantial block of shareholders by country.

We have well defined arrangements for directors' tenures and my maximum term as Chairman was defined at the time of my election as Chairman. I am also subject to my fellow directors having the opportunity annually to re-confirm my position as Chairman. We believe these are appropriate standards for public company directorships.

These are challenging times. I have not seen so many western countries in economic difficulties in my forty year corporate lifetime, and in New Zealand that is exacerbated by the tragic circumstances of Canterbury. I think this is a time when a business such as ours, that is conducting its commerce around the world, really needs experience around the board table, and that ladies and gentlemen is what I believe I best have to offer Fletcher Building.

People

On behalf of the board, I would like to acknowledge the contribution of our staff. This has been a particularly demanding year for many as they have dealt with natural disasters – not only the Canterbury earthquakes, but also floods and a cyclone in Australia and the recent flooding in Thailand. Additionally, they have had to contend with running businesses in adverse economic conditions. Our people have undoubtedly risen to the many challenges of the past year and we are very appreciative of their dedication and professionalism.

I would also like to acknowledge those amongst out staff who suffered the loss of family and friends, or sustained damage to their homes and property as a result of the natural disasters.

Let me at this point also welcome the four thousand Crane employees who became part of the Fletcher Building group during the year.

FBuShare

In March of this year, we launched FBuShare, a global employee share plan that gives our employees the chance to purchase shares in the company, and to receive award shares over time. The scheme was initially launched in eleven countries and the participation rate has been very strong, with thirty per cent of employees electing to join the plan.

Let me now provide an update on the outlook for the 2012 financial year.

Jonathan has already outlined the reasons which have contributed to our performance being below budget so far this year and which led us to lower our guidance for the full year.

Outlook

In New Zealand, our outlook is for no material improvement in trading conditions in the first half of the 2012 financial year, and beyond that we remain uncertain as to the timing of a sustained and meaningful recovery. As mentioned earlier, we are assuming that rebuilding in Canterbury does not begin in earnest until the second half of calendar 2012, based on current Treasury estimates. We have also encountered tough trading conditions during the Rugby World Cup as business activity slowed, and this was exacerbated by the loss of production we sustained for a week in our North Island plants as a result of the ruptured gas pipeline in Taranaki at the end of October.

In Australia, there is a risk that residential and commercial construction activity will remain around the current low level for the balance of the current financial year, and possibly deteriorate further. It is indicative of the macro economic conditions in Australia that the Reserve Bank of Australia lowered interest rates two weeks ago, the first such reduction in two and a half years following seven successive interest rate increases.

Markets in North America and Europe are not expected to improve, but key Asian markets are expected to continue growing, with the exception of Thailand. The recent floods there have had a devastating impact on the lives of the people, particularly around Bangkok, and the economic impacts will be significant in the short term.

Based on the current assessment of market conditions and unaudited internal forecasts, the 2012 half year result is expected to be around 10 per cent lower than the $166 million net earnings for the prior year comparable period. Implicit in this forecast is the assumption that trading conditions in November return to satisfactory levels, after the weakness we experienced in October for the reasons I have just mentioned.

For the full 2012 financial year net earnings are expected to be similar to the $359 million pre-unusuals result reported in 2011.

This guidance does imply that the second half will be materially stronger than the first half of the 2012 financial year. The assumptions underpinning this can be summarised as follows:

- Based on the positive trend in housing approvals starts seen in the September quarter in New Zealand relative to the two preceding quarters, we expect this to be reflected in improved trading by those business exposed to the New Zealand residential housing market;
- We expect the benefits of the two recently won coal seam gas contracts to boost Crane's second half results;

- We note that due to seasonal factors, Formica typically derives a greater proportion of its earnings in the second half of the year;
- And also we expect the benefits from the restructuring that has been undertaken in Laminex as a result of the reduced volume to assist the result in the second half of the year.

I would stress that our forecast for the full year is dependent upon these assumptions and no further deterioration in our key markets. Should construction volumes fall further, then this guidance may require to be further revised.

Finally, ladies and gentlemen, let me say that, while the short term outlook is difficult, you can be assured that we will continue to do everything we can to optimise the performance of the company in these tough times.

The share price performance over the past month has been disappointing, but ultimately we must accept the markets as they are. In the longer term, we remain confident that the company is well placed to grow its earnings in all of the markets in which we operate and that we have a very experienced and capable management team. Despite the recent reduction in share price, and as we mentioned earlier, we should not forget that Fletcher Building's total shareholder return over the short and long term remains amongst the best in its peer group.

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