2013 Annual Shareholders' Meeting

10.30 am Wednesday 16 October 2013
Eden Park
Auckland

Chief Executive Officer's Address

FLETCHER BUILDING LIMITED

Annual Shareholders' Meeting 2013

Good morning ladies and gentlemen, it gives me great pleasure once again to be able to address you here today.

A year ago when I spoke to you, I outlined our plan to lift the performance of the group and to ensure that we could be in a position to grow earnings even in tough and volatile economic times.

We have made much progress in the past year, which I would now like to highlight.

FBUnite

Firstly, I have worked closely with the executive team examining the Fletcher Building business model and how we might evolve the way we work in the future. Through this process we formed strong views of the opportunities to foster greater collaboration across the group, combine resources and better leverage our scale, improve our operating efficiency and better target investment towards future growth opportunities.

What has emerged from this work is a number of separate but related work streams, which will collectively transform how Fletcher Building operates. We've branded this programme FBUnite. The broad goals of FBUnite are two-fold:

Firstly, to reduce Fletcher Building's operating cost base through greater centralisation of common functions to leverage group size, and through the establishment of centres of excellence.

Secondly, to develop and implement future strategies for growth, and the platforms for growth, including people capability and digital technology enablement.

I am pleased to report that we have made excellent progress in the past year in establishing the various FBUnite initiatives. Each of the eleven separate work streams has the leadership team in place and plans developed. Over time, we expect that annual total pre-tax benefits from FBUnite will be in the range of $75 million to $100 million per annum. I would stress that FBUnite is a multi-year programme and the timing of these eleven initiatives will naturally vary, therefore this quantum of benefit will take several years to be fully realised. Capital and operating expenditure will be incurred in the current year to enable a number of work streams to be implemented and this will likely offset early gains. However, the benefits should become evident from the 2015 financial year onwards.

FBUnite is a refinement of the decentralised model that has been a feature of Fletcher Building since 2001. Our goal is to have the best of both worlds, with our businesses continuing to work closely with their customers, product and market segments. At the same time we believe that we can reduce costs and more efficiently deliver supporting and enabling services to our businesses through harnessing the collective strength of the group.

Some of the milestones we have achieved during the year have included:

- Establishment of the shared services centre here in Auckland which will ultimately be responsible for the processing of most of the administrative functions across Australia and New Zealand;
- The formation of a centralised property management team to actively manage the property interests we have across Australia and New Zealand, which total in excess of one thousand leased and owned properties;
- The recruitment of a team of procurement professionals and the establishment of the centralised procurement function;
- Completion of the initial assessment of the group's IT and digital assets and immediate priorities;
- The rollout of the manufacturing excellence model to a number of plants across Australia and New Zealand.

There remains much to be done, but I am excited by how much progress we have already made with FBUnite and I have been particularly struck with the support and acceptance we have seen amongst our business leaders and their teams.

Strategy Review

A second priority since I started last October has been to undertake a broad review of our strategy. This review has confirmed our position as an integrated manufacturer and distributor of infrastructure and building products, as well as a construction company, and has also lead to the exploration of opportunities around:

- Harnessing digital technologies to further drive revenues and make it easier for customers to interact with us;
- Further investment in our distribution activities across Australia and New Zealand;
- Other growth opportunities for expansion in adjacent products or industries.

Our focus will continue to be on our core markets in New Zealand and Australia, complemented by selected investment further afield in our global Formica business. Large scale acquisitions are not a priority, and as I have noted previously, our immediate focus is on improving returns from the mix of businesses we currently own. However, we do maintain an overview of the total business portfolio and will look to invest or divest businesses from time to time. In the past year, for instance, we have acquired a high pressure laminate business in India which will manufacture

Formica for that market, and earlier this year we sold several businesses including the Cory's Electrical business, and CSP Galvanising.

Beyond what is undertaken at a group level, each one of our businesses continues to pursue opportunities for further growth. These can include new product ranges, expansion into adjacent product areas, service enhancements, or entry into new markets. I could provide you with examples of these from every business we own but we would be here until mid-afternoon. The point to stress is that each of our divisional and business unit leaders remains focused on growing their businesses and improving their returns. What we seek to do at the corporate centre is augment those individual plans with capabilities such as digital enablement, manufacturing excellence, and new ways to approach distribution

Simplifying the Business

A third priority over the past year has been to simplify the business, and we have made a number of changes to simplify our divisional structure and bring greater clarity around business clusters.

Last year we integrated the various steel businesses into the other divisions. This year, the Iplex Pipelines and Crane Copper Tube businesses, that were acquired as part of the acquisition of Crane were combined with Infrastructure Products. With this change, we have brought all the pipe business units together in one division and this will give us the opportunity to provide a broader suite of products to end customers, particularly those involved in the early part of the construction cycle.

The other key businesses from the Crane acquisition, Tradelink in Australia and Mico Plumbing in New Zealand, are now grouped under the Distribution division heading.

As a result of these changes, the Crane division was disestablished as separate division, reducing the number of divisions to five.

Both the Infrastructure Products and Building Products divisions have made a number of further organisational changes during the year to combine businesses and reduce complexity.

Management Changes

There have been several changes to the executive team over the past year.

Nick Olson was appointed chief financial officer in April this year, joining the company from Telecom New Zealand where he was also chief financial officer. Nick's appointment followed the retirement Bill Roest who had been in the role since 2001, and who had worked for the group for almost forty years. We wish Bill every happiness in his retirement.

Two senior appointments to our distribution businesses were made during the year. Tim Hickey was appointed chief executive Distribution Australia in March, having worked previously as a senior executive for Yum Brands in the US and as the CEO of Midas Australia.

Dean Fradgley has been appointed chief executive of the New Zealand Distribution business and is shortly relocating from the UK to take up this role. Dean has more than twenty years' experience in retailing and for the past thirteen years has worked within the trade and hardware sectors.

Charles Bolt has been appointed Company Secretary and General Counsel to replace Martin Farrell who, as the chairman has already mentioned, is retiring this month. Charles joined Fletcher Building in 2002 as corporate legal counsel, and is currently General Manager Group Legal.

Finally, we have appointed Carl Powell to the newly created position of Chief Information Officer. Carl will have responsibility for developing and implementing a Fletcher Building-wide IT strategy, including the development of a digital strategy and a general review of the structure and technology landscape across the group. He is joining us from the UK where he has been Group CIO of Unipart Group for the past four years.

Tradelink

One of the business's I've put particular focus on in the past year has been our Tradelink plumbing distribution business in Australia. With Tim Hickey's appointment earlier this year, the team have undertaken a strategic review of how the business serves its customers and where it should best focus its efforts. I have been impressed with the plans that Tim and his team have developed and I am confident that we win back customers and market share and improve the earnings from this business over time.

Housing Affordability

A notable event in this past year has been the completion of our first apartment building in the Stonefields subdivision here in Auckland. We have historically confined our home building activities to stand alone and low rise developments, and the Saltus apartment complex was our first multi-level apartment development. We have several more apartment buildings planned for Stonefields which will complement our other housing offerings, in what has been a very successful development for the company.

We see further opportunity to expand in the housing market here in Auckland through increased medium and high density housing developments. Clearly, housing affordability is an issue and ever-higher land prices are a major factor; land now accounts for up to 43 per cent of the total cost of a new house. Bringing new housing solutions to market, thereby increasing the supply of housing stock, will be critical in ensuring that the growing population can be accommodated. The Stonefields suburb is a good example of what Auckland is going to need in the future: well planned new communities, with a mix of stand alone and terrace houses, coupled with medium rise apartments. We are keen to work with both central government, local authorities and landowners to improve the supply of new housing and are engaged in an active dialogue with them.

Canterbury

The chairman has already mentioned the milestone we passed earlier this year with the completion of the half way mark in the repair of the 80,000 homes in Canterbury damaged by the Earthquakes. We are now focused on ensuring that the new deadline for completion of the home repairs programme, December 2014, is met. The next stage in the reconstruction effort will be the rebuilding of the city centre. We are encouraged that, in addition to the master plan, agreement has been reached between the government and the Christchurch City Council on the funding for key government and civic buildings. Ideally, we will see city centre construction work ramp up as the home repairs programme is coming to completion, to allow the skilled workforce to transition to commercial building projects.

Managing For Cash

Last year I noted that an increased focus on cash generation would be a priority in the coming year. We have certainly achieved this, with cash flow from operations up 25 per cent, and both working capital and capital expenditure down on the prior year. But we have more to do. Looking ahead, we will continue to focus on our working capital levels, and we expect the manufacturing excellence programme to help drive down inventory levels over time.

In terms of capital expenditure, we expect to spend between $250 million and $300 million in the current year compared with $246 million in 2013. The most significant item in the past year has been our investment in a new Formica plant in Jiu Jiang in China, which will come on stream in November and add significantly to our capacity in the Asia region.

Delivering on Health and Safety

In terms of our health and safety performance, this past year has been one of continued improvement. The total recordable injury frequency rate – the measure of the total injuries per million employee and contractor hours – fell to 6.8 from 8.5 in 2012. This compares with a figure of over 60 a decade ago. Our commitment as an organisation to workplace health and safety is unwavering, and it is a key part of the manufacturing excellence programme we are rolling out across our business. Safety on site is tightly linked to how our plants are run and maintained, and continued improvements in safety metrics are a key outcome of the manufacturing excellence programme alongside greater operational efficiency.

Investing in our people

Finally, we have made strong progress in redefining our people management activities, spanning all areas from recruitment, training and development, through to succession planning and promotion. A priority for us has been to roll out better structured and more targeted training programmes on a consistent basis group-wide. This past year has seen two programmes launched, one for branch managers and one for those in leadership positions. Two further leadership programmes will be delivered this year.

We have also been focused on developing a pipeline of talented individuals who can grow and succeed within Fletcher Building. Our goal is to be employer of choice, and recruiting the right people and providing them with the opportunities to build a career path are critical to this.

Thank you very much ladies and gentlemen