2013 Annual Shareholders' Meeting

10.30 am Wednesday 16 October 2013
Eden Park
Auckland

Chairman's Address

Good morning ladies and gentlemen. Welcome to the 2013 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 and I extend a warm welcome to those who are watching proceedings online.

Directors

Before commencing the business of the meeting, let me introduce my fellow directors.

Tony Carter joined the board in 2010. He was previously managing director of Foodstuffs (Auckland) Limited and Foodstuffs (New Zealand) Limited and has extensive experience in retailing, including as a previous director and later chairman of Mitre 10 New Zealand Limited. Mr Carter is chairman of Fisher & Paykel Healthcare, Air New Zealand, and the Blues LLP, and he is also a director of ANZ New Zealand, co-chair of the NZ Initiative and a trustee of the Maurice Carter Charitable Trust.

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 a director of Delegats Wines 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 chairman of the ANZ Bank New Zealand and the Auckland Art Gallery Foundation, and a member of the Otago University Business School advisory board.

Mark Adamson was appointed Chief Executive Officer and Managing Director with effect from 1 October 2012.He joined the Formica Group in 1998 as chief financial officer of the European division and became president of Formica Europe in 2004. Mark was appointed chief executive of Formica Corporation in 2008 and of the Laminates & Panels division in 2011. Mark is a member of the English Institute of Chartered Accountants and the Institute of Taxation.

Kathryn Spargo was appointed to the board in March 2012. She has extensive business experience from advisory roles on strategic and governance issues following a career in legal practice in both the public and private sectors. She is a non-executive director of United Group, Sonic Healthcare, SMEC, and Investec Bank (Australia). She is a fellow of the Australian Institute of Directors.

Cecilia Tarrant joined the board in 2011. 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. Cecilia is a

Trustee of The University of Auckland Foundation, a director of Shopping Centres Australasia Property Group Trustee NZ, and deputy chair 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 a director of Orica, Aurizon Holdings, and the GPT Group and a councillor of Curtin University of Technology.

On my immediate right is Martin Farrell, our Company Secretary and General Counsel. This is the last meeting at which we will have Martin attend as company secretary, as he is shortly to retire from Fletcher Building. Martin has had a Fletcher career spanning some 33 years, having originally joined Fletcher Holdings in 1980, and then headed the tax function in Fletcher Challenge. He has been in his present role since 2001. I would like to thank Martin on behalf of the Board for his long service and excellent counsel since that time.

Meeting Agenda

I will shortly give you my overview of the company's performance and the key areas of board focus during the 2013 financial year.

Mark Adamson will then address you and outline the company's strategy and his priorities. After that I will provide an update on how we expect the company to perform in the year ahead, 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 four 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.

Review of 2013 Performance

Let me now briefly review the financial and operational performance of Fletcher Building over the past year.

The 2013 financial year was one of contrasting fortunes in our two core markets. Here in New Zealand, we experienced a strong increase in residential house building activity. Consents were up 22 per cent on the prior year, driven by strong improvements in activity levels in Auckland, and in new housing construction in Canterbury. Continued gains in infrastructure and commercial construction were also evident, with Christchurch again an important factor.

In Australia, conditions were subdued throughout the year and there was no discernible improvement as the year ended. Activity levels across most sectors were weak. In terms of individual states, a modest improvement in New South Wales was offset by weaker conditions in Victoria while volumes in the other states remained relatively flat.

From an earnings perspective, New Zealand operating earnings were up strongly to $286 million, an increase of 38 per cent. In addition to higher building and construction materials volumes, the result was boosted by strong earnings in our residential development business here in Auckland with strong demand for new housing, particularly in the Stonefields development.

Operating earnings in our Australian businesses declined by 22 per cent to $203 million. The principal reason for the reduction was the deterioration in trading conditions experienced by the Tradelink business across Australia. Mark Adamson will discuss Tradelink in greater detail in his presentation, but suffice it to say at this point that this business has undergone a management change and restoring its profitability is a key focus for the board and management.

Beyond Australasia, conditions were mixed. Volumes in our Formica business in North America improved off the back of increased housing construction activity. Asian markets were patchy, with little growth evident in China and Taiwan but strong volumes in South East Asia. Europe continued to be depressed, and it was disappointing to record a small operating loss in this region. Operating earnings from our businesses outside of Australia declined by 11 per cent to $80 million.

Total group operating earnings were 2 per cent higher at $569 million, and net earnings after tax were $326 million, up 3 per cent on underlying net earnings recorded in the prior year and 76 per cent higher than last year’s reported net earnings of $185 million.

The dividend for the year was unchanged at 34 cents per share, which equates to a dividend pay out ratio of 71 per cent.

A particular highlight of the year was the strong improvement in cash flow from operations, which was up 25 per cent on the prior year at $559 million. This was driven by stronger contributions from the Construction, Building Products and Distribution divisions, and improvements in working capital.

Progress on Strategic Priorities

In addition to this year’s solid trading performance, excellent progress was made during the year under Mark Adamson’s leadership to redefine the priorities and opportunities for the company. Since taking up the position of chief executive officer a year ago, Mark and the management team have been focused on both planning for the future and in implementing a number of significant transformation initiatives.

Through the development of the FBUnite programme, we now have a clear roadmap as to how Fletcher Building can seek to improve its earnings performance over the next few years through greater efficiencies and through targeting selected organic growth opportunities.

Mark will discuss FBUnite in greater detail when he speaks, and at this point what I really want to stress is that the thinking behind the various FBUnite initiatives has been done in consultation between the management team and the Board. Where changes have been proposed to existing operations, either through business combinations or greater centralisation of administrative functions, these have been keenly examined and tested at Board level. While there has been rigorous debate, we are all aligned around the future direction that Mark and the management team have developed.

Canterbury Repairs and Reconstruction

A highlight of the year has been the progress made in the Canterbury home repair programme. In June this year we reached the half way milestone, with the completion of 40,000 permanent home repairs. Subsequently, we were asked by the government to accelerate the repairs programme and bring the completion date forward a year to December 2014 – a challenge we have accepted. We are proud of what we have achieved through the implementation of this programme thus far.

Total Shareholder Returns

When looking at the past year, it is difficult to ignore the exceptionally strong returns to shareholders. For the year to 30 June 2013, total shareholder returns were 51 per cent, which was mainly attributable to the very strong share price performance over that time. Fletcher Building is not alone, of course, in seeing strong share price appreciation which has been in part due to the strength of equity markets in the past year. Looking at factors specific to Fletcher Building, we believe that the share price performance reflects investor support for the transformation and growth plans that we have outlined to the market, together with the improvement we have experienced in New Zealand construction activity levels. Also of importance was the fact that we delivered earnings in line with the guidance we gave at this meeting a year ago.

Dividend

The total dividend for the year was unchanged at 34 cents per share, which equated to an earnings pay-out ratio of 71 per cent. With a relatively high pay-out ratio, and only modest underlying earnings growth, the Board did not feel that an increase in dividend was warranted at this time. We are cognisant of the importance of the dividend to investors and expect the dividend to rise as we grow earnings.

Balance Sheet

A key outcome of the year has been the reduction in the group's gearing, through both the strong cash generation and through selected asset sales. Gearing, measured by the ratio of net debt to net debt plus equity, was down from 37 per cent last year to 33 per cent at the end of June 2013. We expect further reductions in gearing over the medium term as we continue to generate positive free cash flow and our expectation of moderate capital expenditure requirements. Maintaining a strong balance sheet continues to be an important means of minimising our risk exposure to volatile financial markets.

Board Changes

There have been no changes to the composition of the board since last year's annual meeting. Over the past several years we have undertaken a full cycle of refreshing the board as directors' terms of appointment have concluded.

I am standing for re-election to the board this year, and at this point would like to speak in support of my re-election and also outline future board changes.

Following my retirement as chief executive in 2006, I joined the board as a non-executive director, and in March 2010 was appointed chairman of the board. Consistent with the practice of all non-executive directors of having defined tenures, my term on the board is due to be completed by March 2015, and I have indicated to the other directors that I intend to retire from the board slightly ahead of this, at the end of 2014.

Given this, we have commenced a search for a new director to be appointed within the next few months to fill the seat I will vacate. It is desirable that there be an appropriate overlap so that the new director can have a meaningful view when my successor as chairman is chosen by the board. The new director will also be entitled to be a candidate for that role.

In terms of my re-election to the board, therefore, this is likely to be just for a further year. A key priority for me will be to ensure that we make a strong appointment to the board, and have an orderly and effective transition to a new chairman. By the time of my retirement next year I will have had a 13 year association with Fletcher Building, a company that I have been proud to lead both as chief executive and latterly as chairman. Shareholders can be assured that I remain committed to ensuring that the company is managed in their best interests over the next year and beyond.

People

On behalf of the board, I would like to especially thank all of our employees for their commitment and contribution to the company's success. This past year has continued to present many challenges. For some this has meant grappling with the pressures of rapidly increased demand for products and services, while others have had to face the difficulty of dealing with declining markets and industry over-capacity. The need to further rationalise operations in a number of our businesses has tested many of our people, and it has been gratifying to see how our people have responded to the many challenges during the year.

Outlook

We have now completed the first three trading months in the new financial year. Thus far, we have experienced similar conditions to those that prevailed throughout the previous year.

One important difference to note is the strength of the New Zealand dollar against the Australian dollar relative to a year ago. We estimate that this will negatively impact earnings translation by around $15 million this year if the current exchange rate is maintained. This impact would be exacerbated by any further strengthening of the New Zealand dollar relative to the Australian dollar.

Looking at underlying trading conditions, we expect a further increase in construction activity levels across most sectors in New Zealand in the 2014 financial year. The strong increase in housing consents in the second half of the prior year should underpin activity levels in the first half of the current year, and the repair of houses and infrastructure in Christchurch will continue to boost activity levels. We expect a steady improvement in commercial building while civil infrastructure will benefit from recent government announcements for major projects in Auckland and Canterbury as well as building in the health and education sectors.

In Australia, there has been no noticeable improvement in volumes since the new financial year began and our prognosis for the year is for relatively flat conditions. Some variation in performance by state is likely, and we note in particular that activity levels in New South Wales appear to be improving while Victoria remains subdued. It is hoped that the change in government and policy reform will lead to a more positive business environment over time. However, declining investment in the mining and resources sectors will be a potential near term drag on activity levels.

In North America, increases in new housing construction will benefit Formica, although only 15 per cent of its revenues are derived from new housing construction, and the commercial market which has remained flat so far will have the biggest impact.

Most parts of Europe remain difficult, particularly Spain, and we are targeting to break even in this region overall this year.

South East Asia is expected to continue to grow satisfactorily while markets in northern Asia and China may be more subdued.

In terms of the earnings outlook for the 2014 financial year, and having regard to the assumptions around market conditions and currency impacts that I have just outlined, our expectation is that operating earnings, that is, earnings before interest and tax, will be between $610 million and $650 million.