FLETCHER BUILDING LIMITED

2018 Annual Shareholders' Meeting

Chief Executive's Address

Welcome

Good morning Ladies and Gentlemen.

I have now been at Fletcher Building for just over 12 months, and as Bruce highlighted it has been a very busy period; as we worked through the construction issues, recapitalised the balance sheet, set a new strategy, made changes to the executive team, and trimmed the business overhead.

These sorts of transitions can be very distracting, and importantly this reset was completed by the end of the 2018 financial year. Getting this done allowed us to get on with running the business, and focus properly on our customers without all the other distractions.

I am also pleased to say that the great things, and potential, that I saw in Fletcher Building that initially attracted me to the CEO role, have if anything been reinforced through my last year, and I continue to feel both excited and energised by the opportunity in front of us.

Fletcher Building Executive Team

Before talking to the FY18 results I would like to introduce the Fletcher Building Executive Team.

Selecting an experienced and proven team was very important for our future and I am confident that we have achieved this with the team shown on this slide.

Starting with our New Zealand businesses; Michele, Steve, Bruce, Hamish and Ian, all have significant experience both in the sectors they are responsible for, as well as with Fletcher Building. And importantly, they have all been consistent performers over many years.

Peter Reidy has recently joined us to run our Construction businesses. Peter brings significant sector experience to the role, as well as strong government connections after his highly successful 4 years as the CEO of Kiwi Rail.

Dean has recently relocated from Auckland to Australia to take on the responsibility for all of our Australian businesses. Dean moves into this role after successfully driving significant performance improvement and growth in our New Zealand Distribution

businesses over the last 4 years. His proven performance, combined with his previous international experience position him very well to affect our Australian turnaround over the coming years.

Our group Functional Executives are all based here in Auckland with myself; Bevan, Claire, Charles and John are all strong performers with significant discipline and Fletcher experience. Wendi, who leads the Health and Safety function is a more recent appointment and brings extensive industry and overseas experience to the role.

Most of them are here today, and if they could please stand up so you can see where they are.

They like me will be available after the formal part of the meeting, so I would encourage you to seek them out for a chat.

I now want to provide a bit more detail on the FY18 results.

Material improvement in Health and Safety

Operating safely is critical for our business and for that reason I will start with our Safety performance over the past year.

Pleasingly, safety across Fletcher Building is heading in the right direction, and we saw material improvements in safety across all our key metrics through the year.

Our total recordable injury frequency rate decreased by 26% though the year to 5.1 injuries per million hours worked for those not familiar with the measure, a lower number here is better. This was achieved through a number of things; a refocusing of our safety efforts, significant training of our people across all levels of the business, and the launch of a consistent and risk based group wide safety program that we call “protect”.

Through the year we also placed a lot of emphasis on understanding and eliminating critical risks across our businesses… this focus saw our serious injury rates reduce by 36% through the year… this was another important and pleasing result.

It’s important to remain restless when it comes to safety, as there is still much to do, our intention through FY19 is continue to drive performance improvement across all of our businesses.

FY2018 Results Overview

This slide provides an overview of our FY18 financial results.

As Bruce mentioned, it was a challenging year with generally disappointing financial outcomes.

Revenues were broadly flat year on year, net earnings were a loss of $190m after tax following our various issues, and as a result we did not pay a dividend. But on a positive,

we did see a material reduction in net debt as a result of improved cash flows and the capital raise we undertook in May.

This overall picture however does somewhat mask what was happening in the underlying businesses.

To provide a better sense of our performance through FY18 I will focus in on a few relevant areas in the coming slides.

Solid revenue performance

Our decision to run down the B&I or vertical construction book, and not bid any new projects, meant our construction revenue naturally declined year on year. This muted our overall Group revenue to around a 1% increase year on year.

If you take the Construction impact out of the revenue numbers, then the revenue story across our businesses was more positive:

- Revenues in our New Zealand businesses were up 7% year on year lead by our building products and distribution businesses
- Our Australian revenues increased 9% due to growth across; Rocla, Iplex and Tradelink
- And revenues across the rest of the world were slightly down as the growth in Formica's revenues were offset by a weaker performance in the Roof Tile Group… for which we recently completed the sale process.

Underlying EBIT reflects core business performance

Our underlying profit performance is best understood by looking at our EBIT performance before significant items and B+I losses, which for the FY18 year was $710m.

This was delivered despite sharp increases in many of our production input costs such as; power, paper, resins and transport generally, which ultimately put some pressure on our margins.

Delivering this underlying performance was an important outcome, as we needed to enter the FY19 year with our core businesses performing.

To help provide a relevant comparison for the $710m profit we achieved in FY18, we have put 3 years of underlying EBIT performance in the graph on the slide.

The best comparison for our FY18 performance is not so much the 2017 outcome but the earnings in 2016 of $682m. That's because in 2017, we had a number of positive one-off benefits, and some large construction projects finishing that increased profitability in 2017 above the normal and sustainable run rate.

Statutory earnings impacted by B+I losses

Moving to the next slide the statutory earnings reflect the results as reported in our Profit and Loss statements.

Here both EBIT and NPAT are reported after the impact of the B+I losses and other significant items.

In 2018 we reported an EBIT loss of $118m, and a Net loss after tax of $190m.

Both of these were down significantly on FY17 resulting from; the B+I losses of $660m, $99m of impairments after tax on the carrying value of Rocla and the Roof Tile Group, and $31m of other significant items after tax, which included gains on sale from our stakes in Simms Metals and the Dongwha Laminates factory, offset by charges associated with moving to the new structure, and the removal of overhead through May and June this year.

Cash and capital funding

Through all this cash was a good story, and the cash generation from the core businesses was strong and we saw an increase in both trading and operating cash flows across the Group.

Interest costs remained high because of penalty interest charges associated with our debt covenant breaches in February – these extra charges are expected to end in March 2019 and from then on our future interest costs will reduce accordingly.

The net result of the improved underlying cash flows and the capital raise through the year, was we exited FY18 in a stronger capital position, with net debt down by a third to $1.3bn.

This gives us a good platform from which to confidently execute our strategy.

FY2018 reset provides foundation for vision and strategy

A big part of FY18 was developing and agreeing our go forward Strategy for the Group.

This work was informed by a number of important themes:

- We have a strongly performing, and well positioned Building products and Distribution businesses in New Zealand
- Elsewhere, while not all our businesses are performing, the majority are number 1 or 2 in their markets
- But we have been stretched too thinly, across too many geographies, with too many businesses. And we've seen the evidence of this over the medium term, as we suffered through various surprise performance issues, and been overstretched with regards to the demands on our capital.

- And finally, we were carrying too much overhead, and were too centralised here in Auckland.

Against this backdrop we developed the go forward strategy shown here on this slide, which was about focusing on our core NZ businesses, and backing ourselves to get Australia both performing and growing.

Our vision therefore became to be the undisputed leader in New Zealand and Australian building solutions - with Products and Distribution at our core.

We then set ourselves 4 key areas to concentrate on to achieve this a refocus on supporting and growing our core businesses in New Zealand, to stabilise construction and return it to profits, to turnaround and grow our Australian Building Products and Distribution businesses, and finally, to sell The Roof Tile Group and Formica.

Strategy timeframes

We mapped this journey out over the medium term as shown on this slide.

In FY19, we are concentrating on getting the overall business refocused and stabilised. We want to exit the year; with good momentum and performance in our core New Zealand businesses, getting all the construction business set up to perform, while keeping them within the provisions we made in FY18, having achieved a reset of the Australian businesses to ensure their performance will improve through FY20, and successfully concluding the sale of the Formica business.

If we do this well then in FY20 we would expect to see signs of performance improvements and market share gains across all our businesses, which will in turn set us up for growth from FY21 and beyond.

While there is a lot to do here, I feel the focus resulting from the new strategy, combined with the team we have in place, gives a very strong likelihood of success.

Firmly focussed on the future

As I mentioned in my introduction, I was attracted to the Fletcher Building CEO role because I could see a lot of potential for the business, and having been on the inside now for 12 months, I am even more convinced about this.

This slide cherry picks a few examples of what we are doing, that point to why I feel there is a lot of strong future opportunities in front of us.

- From the innovation we are bringing to the Residential sector through various off site manufacturing solutions
- To the ecommerce and digitisation processes we are implementing across our distribution businesses

- And Product and Process Innovation across many other areas of business

If you take these, and other similar things our businesses are working on, and then combine them with a more focused strategy, it should enable us to get properly organised to take full advantage of them.

Market Outlook – New Zealand

I'd now like to spend a few moments talking to current market conditions. I will focus on the New Zealand and Australian residential markets as approximately 43% of our total revenue is exposed to these markets.

Firstly in New Zealand, we are seeing residential consents run at around 30,000 per annum, slightly down on previous years, but much as we expected it to look like.

Activity levels remain robust, especially here in Auckland, but we think this is now plateauing and there are signs that the Auckland market will pull back slightly.

Looking forward; with continuing supply/demand imbalances, a solid New Zealand economy, and immigration levels not being overly curtailed, we continue to feel the present levels of activity are sustainable - at least for the medium term.

In our other New Zealand markets, infrastructure and commercial construction activity remain solid.

Market Outlook – Australia

In Australia residential activity accounts for about 40% of our end market exposure. Here we have seen a sharp contraction in new residential consents in the most recent quarter. This is particularly evident in the apartment or multifamily portion of the market.

This is currently impacting our Australian businesses, particularly Stramit, Laminex and Tradelink, and feels like a medium term trend that has some distance to run yet.

As such, as Dean and the team think through their turnaround plans for the Australian business, they're factoring in a weaker Australian residential market than we had previously assumed.

In contrast to this the strength of the infrastructure project pipeline on the Eastern Seaboard continues to look strong for the medium term and provides some offset to what we are seeing in the residential sector.

FY2019 Year to date trading

Our trading to the end of October has broadly reflected the market trends I outlined on the previous slides.

In New Zealand, our businesses have generally been trading in line with our expectations

which we forecast to be flat to slightly down on last year.

The volume of houses we've sold to date in our Fletcher Living business have been a little lower than last year, but this is a stock issue rather than a market issue, and we expect this to catch up as we complete house construction and new stock becomes available to sell through the year.

Our cement plant at Portland, north of Auckland, was affected by a four week outage of the cement mill in September, and while we have insurance for this, we think it will still impact us between $8m to $11m this year.

And finally but importantly we continue to forecast no change to our B+I provisions.

In Australia, the recent months have proved challenging.... The combination of continuing input price rises and the cooling residential sector, have placed pressure on both margins and volumes across our Australian businesses. Dean and the team are onto this, and are looking at the appropriate actions to ensure our cost bases are aligned with what we are now seeing in the market place.

The sale of our international businesses continue to track to plan.... RTG is now sold, and Formica continues to track on its sale process.

Importantly the Formica business continues to operate and perform to plan, with earnings also benefiting from a weaker NZ dollar.

FY2019 Guidance

To finish I would like to update our earnings guidance for the rest of this year.

We expect EBIT before significant items for the full 2019 financial year, to be in the range of $630m to $680m.

Our previous guidance would have placed us at the top end of that range, but we have eased this back slightly given the present trading conditions we are seeing in Australia, and the outage we experienced at the Golden Bay cement plant in New Zealand.

In terms of the first half of the financial year, which ends on 31 December, we are expecting that EBIT will be approximately 10% lower than the first half of 2018.

This is a reflection of; the Australian trading conditions, the Golden Bay cement issue, and timing of sales in our New Zealand residential business.

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