FLETCHER BUILDING LIMITED

Annual Shareholders' Meeting 2017

Chairman Speech

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CHAIRMAN

Welcome

Good morning ladies and gentlemen and welcome to the 2017 Annual Shareholders' Meeting of Fletcher Building Limited. My name is Ralph Norris, and I am the Chairman of the Fletcher Building Board of Directors.

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

We are in a beautiful and significant building for today's meeting. Auckland Museum is a non-smoking venue. Please exit the building if you wish to smoke. In the unlikely event of an emergency, please follow the instructions of Museum hosts, who will get you out the exits and to safety.

This year, as part of our ongoing commitment to making our meetings accessible to as many shareholders as possible, we are pleased to extend a warm welcome to those participating online through our virtual meeting provided by our share registrar Computershare.

Before commencing the business of the meeting, I'd be grateful if those joining us in person could please make sure your phone is on silent and that you use the Lumi AGM app purely for voting and asking questions. This will allow more people to use it to view the meeting remotely and not tie up bandwidth at the venue here today.

There will be opportunities for shareholders to ask questions later in the proceedings. If you are using the Lumi AGM app on your phone, tablet or desktop PC, you can ask questions by clicking on the question icon in the navigation bar at the bottom of the screen. You will receive confirmation that your message has been received. Please note that due to time constraints we may not be able to address all questions today. Questions sent via the Lumi AGM app will also be moderated to avoid repetition, and if questions are particularly lengthy we may need to summarise them, for reasons of brevity. In the event that we are unable to address your question in the time available today, your question will be answered by email or post after the meeting.

For further instructions please refer to the Virtual Meeting Guide that has been sent to shareholders and is also available on the info screen in the Lumi AGM app.

If you are sitting in the room and want to use the Lumi AGM app on your smartphone to vote and you haven't already downloaded the app then you should do so now according to the instructions distributed at the entrance. There are also people in the room that will be able to provide you with any assistance.

Directors

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

On my immediate right is John Judge. John has considerable executive 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 Arts Festival Trust, a director of The New Zealand Initiative, and a member of the Otago University Business School Board of Advisors. John will be retiring from the Board at the end of this meeting, having served 9 years on the Board.

Next to John is Alan Jackson, who was appointed to the board in 2009. A Civil and Construction Engineer in his earlier career, Alan holds a PHD in Civil Engineering and is a Fellow of Engineering New Zealand. He has been an international consultant since 1987 and was until 2009 the Australasian Chairman and a director of The Boston Consulting Group. He has proven experience at the most senior levels of international and government business. He is a director of Delegat Group and Chairman of New Zealand Thoroughbred Racing.

Next to Alan is Bruce Hassall, who was appointed to the board in March this year. He was the CEO and a Senior Partner of PwC New Zealand until mid-2016 when he ended his 30 year career with the company. He is an Independent Non-Executive Director of the Bank of New Zealand, Chairman of The Farmers Trading Company and Non- Executive Director of Prolife Foods and Fletcher Building Industries Limited. He serves as a member of the Advisory Board at the University of Auckland Business School and was a founding board member of the New Zealand China Council.

Next to Bruce is Tony Carter, who joined the board in 2010. Tony trained as a chemical engineer, was previously Managing Director of Foodstuffs Auckland and Foodstuffs New Zealand and has extensive experience in retailing, including as a previous director and later Chairman of Mitre 10 New Zealand. Tony is currently Chairman of Fisher & Paykel Healthcare, Air New Zealand, and the Auckland Blues, and is a director of ANZ Bank New Zealand and Avonhead Mall.

On my left is Charles Bolt, our Company Secretary and General Counsel.

Next to Charles is Cecilia Tarrant, who joined the board in 2011. She has over 20 years' experience in international banking and finance, as both a lawyer and an investment banker, in the United States and Europe. Cecilia is a director of SEEKA and Payments NZ, chairman of the Government Superannuation Fund Authority, a member of the University of Auckland Council and a trustee of the University of Auckland Foundation. Cecilia is also an executive-in-residence at The University of Auckland Business School.

Next to Cecilia is Steve Vamos, who joined the board in 2015. He has more than thirty years' experience in the Information Technology and online media industry and has lived and worked in Australia, the USA and Asia. Steve currently serves as a non-executive Director of Telstra and is a member of the Advisory Board of the University of Technology Sydney Business School.

Meeting agenda

We are here today to be accountable to our shareholders, to keep you informed about what is happening across the business, and to update you about further losses we have incurred in the Building + Interiors business unit of our Construction Division, as announced to the market this morning.

These losses, which I will go into in detail shortly, have been reflected in our earnings guidance for 2018. Today we will provide further transparency about how these issues occurred, the remedial action we have taken, and the risk profile that remains across our legacy projects.

Please be assured that a considerable amount of remedial action has taken place in the last year by the Board, the Executive Team and the Construction Leadership Team.

We have improved business and project governance; improved systems and processes; improved the construction and commercial capability of the Construction Division; and introduced more commercial rigour around the bidding process.

I strongly believe that these actions will address the issues we have experienced over the long term by ensuring our approach to bidding for, contracting and managing future projects is greatly enhanced.

However, these measures will only go so far in altering the trajectory of our legacy projects that commenced some time ago.

I understand many of you will want to understand how these issues arose in the first place, and I will go through this in detail soon.

At this point I want to offer my personal apology to our shareholders. Mistakes have been made and responsibility ultimately rests with the Board. As we stated at our full year results briefings, we fully accept this responsibility.

Our focus now is on delivering these legacy projects to the highest quality for our clients, and mitigating future losses. We recognise our shareholders will want transparency over the remaining risk profile attached to our Building + Interiors project pipeline.

Construction is a dynamic and sometimes volatile business. Some of our projects are complex and will take a number of years to complete. During that time, as the projects develop, risks can materialise that negatively impact our financial position. Equally, upside opportunities can present themselves.

Furthermore, accounting standards require construction losses to be recognised as soon as they become probable.

And as I have said before, estimating losses on large, complex projects is difficult, and requires significant judgment based on the best information available at the time.

To provide as much clarity as possible we will report guidance in a different way this year. We will isolate Building + Interiors, and then report guidance for the remainder of the Fletcher Building business separately. We are also committing today to provide more regular updates to shareholders on the progress of the B+I projects as they are completed.

Our aim is to help our shareholders better understand the performance of the Building + Interiors business, as well as the underlying strength of our broader portfolio of businesses.

I will go through this in detail later in the proceedings.

Turning now to the agenda on **slide 4.**

I will shortly provide an overview of the company's financial performance for the year ended 30 June 2017 and an update on the progress we have made in the Building + Interiors business unit of the Construction Division, which I have touched on briefly now. I will then share with you the actions that the Board is proposing to take to further improve the Division, and to respond to recent feedback from our shareholders.

I will then move on to the performance of our Divisions in 2017 and the progress we are making on our turnaround strategies.

As you would have seen from our market disclosure this morning, we are very pleased to have secured a high calibre CEO appointment in Ross Taylor, who will provide strong leadership to Fletcher Building in the future. Later in the agenda I will take some time to share more about Ross's background and expertise.

I will then outline the strategic review he will undertake upon commencement, and move on to our 2018 outlook and earnings guidance.

We will then go through the formal proceedings, which this year comprise three resolutions, as outlined in the Notice of Meeting. The resolutions will be decided by poll, based on votes cast in the room here today via the Lumi handsets and by shareholders here and online using the Lumi AGM app. Questions on a resolution will be taken before it is voted on.

Please note that voting on the resolutions is now open. For those using Lumi handsets, the resolutions should appear on your screen. For those using the Lumi AGM app on your smart phone or PC, the voting icon will appear on the navigation bar at the bottom of your screen. Once you click on this, the resolutions will appear on your screen, along with the voting options. I will talk in more detail about using the voting technology when we come to formal consideration of the resolutions later in the meeting. For those of you already familiar with the technology, if you wish you can vote any time during the proceedings until I declare the voting closed after all resolutions have been considered and voted on. You can also change your vote at any time throughout the proceedings, until voting is closed. I will give you a clear prompt later in the meeting to warn of the close in voting.

At the conclusion of voting we will then take the opportunity for general business questions and discussion, which incorporates questions from in the room and online. You can start submitting questions online now, which we will address later in the proceedings.

2017 financial performance overview

Now I would like to turn your attention to **slide 6** which provides an overview of our financial performance in 2017.

Fletcher Building reported operating earnings before significant items of $525 million, which was a 23% decrease on financial year 2016. This was driven solely by the losses of the Building + Interiors business, which I will discuss shortly.

Revenue of $9.4 billion was 4% higher, while net earnings before significant items were also down 23% to $321 million.

Earnings per share before significant items were 46 cents and the final dividend of 19 cents per share was paid on 11th October and took the total dividend for the year to 39 cents per share. This corresponded to a pay-out ratio of 84%.

Divisional performances

Turning now to **slide 7** and you can see here the detail of the performance last year by each of our divisions.

The losses in the Construction division were incredibly disappointing and amounted to a $282 million reversal on the prior year's result. B+I was the sole driver of this, as our Higgins, Infrastructure and South Pacific businesses performed well.

Elsewhere, the four other divisions in the Group all posted healthy improvements in earnings. In fact, excluding the losses incurred in the Building + Interiors business, the Group's earnings increased by approximately 20%, and earnings from the New Zealand businesses increased around 30%.

Highlights included the performance of the International and Distribution divisions, which I will talk to in more detail a little later on, while the Residential and Land Development business also reported a large earnings improvement on last year, although this was mainly due to the sale of a large commercial property.

Construction Division update

I would now like to spend more time discussing the Construction Division.

As outlined, the situation with regard to the Building + Interiors business unit has worsened since the full year results and I will address this shortly when discussing the findings from our latest review of the B+I projects, including the findings from the independent KPMG review, which has looked in detail at the two biggest B+I projects.

First I would like to share with you the work that has been undertaken to ensure we do not find ourselves in this position again in the future.

With the Fletcher Building Executive Team, the Construction Division's Chief Executive Michele Kernahan and her leadership team, we have identified what went wrong and we are working assiduously to fix it.

We do not seek to diminish our responsibility, but to understand why this happened it is important to understand the environment in which it occurred. **Slide 9** provides some context for what we are experiencing, based on widely-reported evidence.

Our country is undergoing one of the largest infrastructure and housing booms in its history.

We operate in a globalised industry, meaning we compete with a range of international markets for the best talent.

A scarcity of skills and talent is affecting construction companies in NZ and around the world. The Ministry of Business, Innovation and Employment says that New Zealand needs 56,000 more construction staff to meet demand.

Inflation is running much higher in construction than in the wider economy, and our sector is incredibly competitive, resulting in much thinner margins that provide little room for error.

And like other contractors locally and globally, we are experiencing an increasing transfer of risk from client to contractor, as well as having to tender against international-style contracts, which are more complex and onerous than in the past. In commercial construction, “design & build” contracts and design novation are becoming more prevalent than in the past, posing particular challenges around tendering and design management. The size and scale of new projects is also attracting large international competitors.

It is within that broader context that our own internal challenges created the issues we experienced in 2017.

Our project pipeline in Building + Interiors grew rapidly in a short space of time, especially the number of large projects being undertaken at the same time.

As the pipeline grew there were a number of failings within the core capabilities of the Building + Interiors business, across a range of projects.

This included bid strategy, project planning and resourcing, commercial judgment around the pricing of risk, and the management of consultants.

Our project management resources became stretched, impacted by the labour scarcity of the broader sector and our own rapid growth. This was compounded by projects that presented highly complex design and engineering challenges, which were not managed or priced effectively by stretched teams.

Similar to what has happened globally, these failings occurred despite there being deep construction experience within the Building + Interiors business and the leadership of the Construction Division, across a range of complex and successful projects.

Our key learning from this is that in addition to having high-quality bid and project teams we must ensure we have more robust systems and processes which ensure an appropriate level of testing and challenge on major projects at key intervals.

As I will explain now, we are introducing these systems and processes, and in doing so, we are strengthening our ability to make effective judgements and decisions, particularly on major projects.

What we said we would do, and what we have done

Turning now to **slide 10**, it is important our people, our shareholders and our customers can trust us to do what we say we are going to do. We have made a number of commitments to you all, and our actions since then will demonstrate that we remain focussed on delivering on each and every one of them.

We said we would **improve business and project governance** and we have.

We have made significant enhancements, which will ensure our future projects are set up for success from the outset.

We have implemented new financial management systems for the Building + Interiors, Infrastructure and South Pacific businesses. Our project reporting has been standardised; detailed monthly reviews of all projects are conducted by the Construction Leadership Team; and monthly reviews of all major projects are conducted by the CEO and Executive.

The Board undertakes regular operational review meetings with the Construction Leadership Team, ensuring ongoing oversight of our pipeline and delivery.

We said we would **improve the commercial and construction expertise of the business**, and we have.

We appointed a new chief executive of the Construction Division, Michele Kernahan. Michele has worked for Fletcher Building since 1998 and understands the Company intimately. She led EQR during the Christchurch rebuild – an incredibly complex task.

Michele has greatly enhanced the commercial expertise of the Division and is providing strong leadership as the Building + Interiors business continues its turnaround.

Michele has appointed a new General Manager of the Building + Interiors business, David Kennedy. David is a highly experienced construction expert, with over 30 years' in the industry across multiple markets. He comes to Fletcher Building from Balfour Beatty, which is one of the UK's largest infrastructure development and construction firms.

Our broader Construction Leadership Team is also highly experienced and we are proud to say all General Managers were internally appointed. We have David Geor leading Infrastructure, Brent Leach leading our South Pacific business, and Ken Lotu-I'iga leading our highly successful acquisition Higgins.

Outside our leadership team we have undertaken recruitment in 2017 to lift our skill base and augment existing capability – with a strong focus on project management, project delivery and project operations, as well as risk and commercial management.

On to **slide 11 now.** We said we were going to introduce **more commercial rigour around our bids**, and we have.

A revised bidding and bid review process has been in place since the start of 2017, which now ensures tighter commercial rigour, increased profit expectations and deeper scrutiny and challenge by the Construction Division's leadership. We are focussed on what we can win, pricing risk and determining what will deliver or exceed our margin expectations.

We have improved our oversight of risks and our ability to mitigate them through a stage gate approval process. We will not bid for projects where our criteria are not met, and this increased rigour has already resulted in the business not tendering for some projects due to the risk transfer being proposed.

And the Board now also appoints a sub-committee to review and make recommendations on bids for major projects, ensuring oversight at the highest level of the Company.

We said we would **focus on key sectors and clients**, and we have.

While we don't intend to share the intimate detail of our commercial strategy for our competitors to benefit from, we are focussed on pursuing projects where we have a strong relationship with the client, and where the project presents acceptable risk profiles.

We are also getting better coordinated across all Fletcher Building businesses, to ensure our construction clients receive the best possible service we can provide.

This has been a substantial program of work implemented over the last 10 months.

There is no silver bullet. Instead we have systematically reviewed the total performance of the business and strengthened our governance, processes, systems and talent across the board.

We expect this to have a positive impact on the way we win and manage projects in the future. As I said earlier, however, these measures will only go so far in altering the trajectory of projects that commenced some time ago.

Which brings me to the current position of our Building + Interiors business.

Before we look at the outcomes of the KPMG review, and while it is already widely known, I would like to confirm for you today that the two major projects on which we have incurred the majority of our losses are the Justice Precinct in Christchurch and New Zealand International Convention Centre in Auckland.

We have not named them previously because we have strict confidentiality clauses in our contracts, and we take our obligations to our clients very seriously.

Unilaterally deciding to ignore our contractual requirements would simply put at risk our client relationships and our ability to win work in the future – which is not in the best interests of our shareholders.

However, in the face of these extenuating circumstances and shareholder demand, we have been able to gain agreement from our clients to make an exception in this instance.

I will stress now that this is an exception to the rule, and we will continue to uphold our contractual requirements for confidentiality on all other matters pertaining to our projects, both now and in the future.

KPMG review findings

Turning now to **slide 12** and I will share with you the key findings of the KPMG review.

To augment our existing governance processes, which I have just outlined, we commissioned KPMG to review our two largest projects in both the Building + Interiors business unit and our Infrastructure business unit.

In Building + Interiors this comprised the Convention Centre and Commercial Bay and in Infrastructure, the Puhoi to Warkworth motorway project and Hamilton City Edge Expressway.

The KPMG review is an internal management document and we will not be releasing the detail of the report, however I would like to speak to some of the review's key findings.

I am pleased to say that three out of the four projects reviewed by KPMG are currently on track, including Commercial Bay and the two projects in our Infrastructure business.

On these projects, KPMG has identified that both risks and opportunities exist, but that the projects are well-run with forecast outcomes broadly consistent with the position taken by Fletcher Building.

The key issues identified in the KPMG review relate to the project that has already been identified as a major contributor to our losses, the Convention Centre. KPMG has highlighted that:

- It is a highly challenging project with significant remaining risks;
- High staff turnover throughout the first two years of the project has had a major adverse impact on performance, knowledge retention in the project, and the ability to accurately estimate the final outcome;
- The new leadership team that was recently put in place is improving project organisation morale, and site performance;
- Significant ongoing judgment is required to account for unknown and unquantifiable risks on the project.

You may have seen comments made by the CEO of Sky City last week, pointing to the fact that Building + Interiors “have put in place a very experienced team to work on our project and we are seeing a definite, positive shift in momentum.” KPMG has also highlighted this improvement in its report. We remain aware, however, of the significant complexity associated with this project, and hence there remains a large degree of uncertainty over the final outcome.

This information has informed our earnings guidance, which we will discuss shortly.

Turning now to **slide 13**. The KPMG review also outlined a series of findings and recommendations regarding project governance.

KPMG noted the governance and management processes, systems and controls in our Infrastructure business unit are robust, clearly-defined and comprehensive.

KPMG then made a series of recommendations regarding project governance for our Building + Interiors business.

This includes implementing a standardised approach to the tender process, project management, the control environment, design management, and risk and opportunity management across the business unit.

KPMG noted that the increased use of “design & build” contracts and design novation, which we discussed earlier today, underscores the importance of tendering and design management expertise.

KPMG also noted that the new Convention Centre team is addressing the deficiencies in processes and project controls that have been key contributors to the issues we have experienced on the project, but it will take time for the team to embed itself.

KPMG then highlighted further opportunities to better-integrate JDE into project management and to adopt areas of good practice observed on Infrastructure projects.

These recommendations align with our own internal assessments and will support our efforts to improve the performance of Building + Interiors.

Construction Division future focus

Turning now to **slide 14**. With stronger foundations our Construction Division has clear priorities for 2018.

Safety remains our number one priority at all times – ensuring all our people get home safely every day is simply table-stakes.

Delivery is paramount. With the right talent, robust governance, clear accountabilities, and in partnership with our clients, we are firmly focussed on delivering our project pipeline to the highest quality.

The Division remains focussed on further strengthening its talent pipeline and investing in the capability of its people; taking a disciplined approach to winning new work; and leveraging its stronger finance and IT systems to improve its ability to forecast, manage and control performance.

Board actions

Turning now to **slide 16**. We have engaged widely with our shareholders, both large and small, across multiple markets. We have listened to concerns and feedback. In a number of recent meetings with shareholders that I attended, we heard that after the events of this year and a change in CEO, shareholders want stability in the leadership of the Company.

But more construction expertise is desirable, while maintaining diversity of experience, gender and skill-sets amongst the Board members.

As announced on September 20, John Judge will be retiring as a Director of the Board at the conclusion of today's meeting, following the completion of his nine year tenure. Kate Spargo retired on September 20, after being appointed to the Board of CIMIC Group Limited – one of the world's leading international contractors.

As a result of John Judge's retirement we have appointed Bruce Hassall as Chair of the Audit & Risk Committee. Bruce has considerable experience in auditing, M&A and strategic advisory from a career spanning more than 30 years in professional services.

With these two retirements we have the opportunity to now refresh the Board with two new appointments.

One of these appointments will be a director with deep construction and contracting experience, which we believe will enhance the expertise of the Board and our Audit & Risk Committee. This process is well underway and we will make an announcement as soon as an appointment has been made.

We acknowledge that the issues with the Company's performance have impacted our shareholders' investments. Accordingly, the Board has resolved to reduce all Directors fees by 20% for the next 12 months, with immediate effect.

We will continue to require all Directors to hold at least 20,000 shares as a condition of their appointment. This requirement is not common amongst the largest listed companies in New Zealand, and we believe it ensures the appropriate financial alignment of interests between the Board and shareholders.

Finally, we have listened to feedback from our retail shareholders regarding our communications, and we have updated our Shareholder Communications Policy to better highlight the range of communications channels the Company uses to communicate with all of its shareholders, as well as outlining new initiatives introduced in FY17.

We take our responsibility to communicate with all shareholders, large and small, very seriously, and we are always willing to hear feedback on how we can improve our communications initiatives.

During the year we have strengthened the resourcing of the Fletcher Building Communications function, which will further support these efforts.

Strong foundations

Turning now to **slide 17**. I would like to reassure shareholders that the changes we are making to improve performance are building on an already strong foundation.

We have been investing for many years in organisational culture, which has seen people engagement continue to improve over time. Our annual engagement survey has an incredibly high participation rate of 92%. When you consider we employ over 20,000 people, across more than 35 businesses in markets across the globe, this is an incredible result. Our people want to have a say and want to work with us to continually improve our culture.

We increased engagement in FY17, despite the challenging year we experienced. As you can see we are now very close to the industry norm of 69, which is a composite of the Manufacturing, Heavy Building Products and Retail sectors. Our top 25% most highly engaged teams have engagement levels much higher than the industry norm, at 85.

Since 2014 we have invested in the leadership capability of over 3,000 people across our Company. We are continually building the skills of our people and investing in our talent pipeline.

And most importantly, on **slide 18** you will see that over the last decade we have radically improved our safety performance. The total reportable injury frequency rate has reduced from 57.5 in 2006 to 6.8 in 2017.

Of course even one injury is one too many, and our focus on safety will always be a priority – because we can always do better. In 2017 we launched a major new safety initiative across all Fletcher Building businesses called Protect – to ensure our journey of continual improvement continues.

Highly engaged people, highly capable people, and people who go home safe every day, are the backbone of our business. And we will remain focussed on these fundamentals into the future.

Fletcher Building's divisional structure

Turning now to **slide 20**, it is important to remember the diversity of the Fletcher Building's business. We are not only a construction company. We operate over 30 businesses across five key divisions – Building Products, Distribution, International, Construction and Residential and Land Development.

And the majority of our Divisions and businesses are performing to plan – in fact many had record years in 2017.

Building Products

On **slide 21** we overview the Building Products Division, which is led by Chief Executive Matt Crockett, has over 80 manufacturing sites across New Zealand and Australia and employs approximately 3,900 people.

Its operations span concrete, cement and aggregates, concrete and plastic piping, insulation and plasterboard. Through this Division we are one of the largest investors in local manufacturing in New Zealand. In fact we are the only local manufacturer of cement.

Although Building Products headline operating earnings before significant items were down 3% to $267 million, as we have seen in a previous slide, when adjusting for the divestment of Rocla Quarries and Pacific Steel this was actually up 6% on last year.

The Firth and GBC Winstone businesses had a good year in 2017 with domestic volumes up around 3-4% and having a positive flow through to revenue and EBIT growth.

The 10% increase in Building Products operating earnings was driven by improvements in plasterboard and performance board volumes at Winstone Wallboards, while Tasman Insulation's EBIT more than doubled due to price increases and improvements in the production facilities.

For the first time since 2014, Iplex Australia reported positive EBIT, and in New Zealand Iplex earnings benefited from a 4% improvement in volumes.

Given the continued high level of demand for our manufactured building products and cost increases we are endeavouring to seek price increases wherever possible to at least offset inflationary pressures.

Distribution

Turning now to **slide 22**. The Distribution Division, led by Chief Executive Dean Fradgley, includes 330 retail sites in New Zealand and Australia, employing over 6,000 people.

Its operations include PlaceMakers and Mico in New Zealand and Tradelink in Australia, as well as steel distribution businesses in both countries.

As I mentioned earlier, the Distribution result in FY17 was one of the highlights across the group.

Our PlaceMakers and Mico building supplies businesses benefited from the very high levels of activity in the New Zealand housing and construction markets and collectively reported operating earnings up 22% on last year. This reflected market share gains, revenue at both PlaceMakers and Mico increasing 6% year on year, improved gross margins and controlled operating costs.

The Steel Distribution businesses in New Zealand increased operating earnings by 23% on the back of market share gains across all businesses plus a firm control on costs.

In Australia, Tradelink continues to show improvement in trading, particularly targeting SME customers. It opened 20 new stores in FY17, and will open a similar number in FY18.

It has some recent momentum and has started posting year on year growth in store revenues, but it is still some way from producing what we would consider to be acceptable returns. At the end of the last financial year, Tradelink's carrying value was written down by $153 million, reflecting the large goodwill and intangible assets included within its asset base previously.

International

On **slide 23** we overview the International Division, which is led by Interim Chief Executive Mitch Quint and employs approximately 5,500 people who work across North America, Europe and Asia.

Its core brands include Formica and Laminex, which specialise in high pressure and low pressure laminate surfaces.

Formica had a strong year with its EBIT increasing 42% to $88 million, mainly on the back of the $21 million swing in Formica Europe earnings and the 35% increase in Formica Asia EBIT.

It was the first time since Formica was acquired in 2007 that all three of the Formica regions – Europe, Asia and North America – posted gains in their operating earnings results.

Laminex's EBIT grew 13% in FY17 on the back of improvement across both sides of the Tasman and improved share in decorated board in New Zealand. Western Australia remained a challenging market for Laminex Australia due to declining activity levels.

Residential and Land Development

Turning now to **slide 24**. Our Residential and Land Development Division is led by Chief Executive Steve Evans, and is currently delivering 11 housing developments in Auckland and 5 in Canterbury. Our aspiration is to deliver 1,000 homes per year, depending on market conditions and the availability of suitable land.

The Fletcher Living business posted a 3% increase in EBIT in FY17 based on selling 499 houses and sections in the Auckland and Christchurch regions.

The number of houses sold was lower than expected due to the timing of land purchases, constraints around obtaining building consents, weather delays and a slowing of the Auckland market in the last quarter of the year.

There is still strong demand for houses in the Auckland market within key price brackets, and in FY18 the number of houses and sections sold is expected to be a material increase on FY17.

The Land Development operating earnings of $54 million were positively impacted in the second half of the year by the sale of James Fletcher Drive, which represented the majority of Land Development earnings for FY17.

As total funds employed in the Residential and Land Development Division have now increased to over $500 million, the focus continues to be on profitable growth in houses delivered to market, and at least $25 million per annum over the next 5 years in Land Development earnings.

Construction

Slide 25 overviews our Construction Division, which is led by Chief Executive Michele Kernahan and comprises four business units – Building + Interiors, Infrastructure, South Pacific and Higgins.

We have already talked at some length about the result in the Construction Division but it is worth mentioning the performance of the businesses outside of Building + Interiors.

Infrastructure had a good year on the back of the completion of the Waterview Tunnel plus the McKays to Peka Peka road north of Wellington, but is likely to produce a lower EBIT in FY18 due to major new projects being at an early stage.

The recently acquired Higgins business had a strong contribution of $39 million in its first year of Fletcher Building ownership, representing a 15% return on its carrying value.

The South Pacific performance was also strong but will return to more historic averages in FY18 as the backlog has significantly reduced, with a very short average duration of projects to be completed.

Turnaround strategies progress

Turning now to **slide 26**, I would like to touch on the progress we are making against our turnaround strategies in Australia and Europe.

The Board and I would like to acknowledge the impact prior acquisitions have had on the performance of the Company over many years.

Five years ago we commenced a process of divesting poor performing and non-core assets, and identifying potential high-quality acquisitions. This saw the divestment of several businesses, notably the Pacific Steel business in New Zealand and the Rocla Quarries business in Australia. In addition, we have taken a far more disciplined approach to acquisitions. Higgins is the only major deal completed in recent times and has delivered solid results in its first year under our ownership.
We have also implemented turnaround strategies within businesses we believe can still deliver shareholder value over the medium to long term.

To this end, FY17 was marked by the progress of the turnaround in Iplex Australia and Formica Europe.

Iplex has improved its EBIT by $27m over the last two years by addressing a number of fundamental issues, including its product offering and operational efficiency of manufacturing plants.

Formica Europe has started to regain the market share it lost a few years ago when it wasn’t able to manufacture and deliver products to its customers in a timely way and to specification. This has been corrected by investment in the North Shields site, the reduction in overheads and benefiting from the cost advantage of a lower pound sterling post-Brexit.

Tradelink in Australia is currently early in its turnaround, with year-on-year growth of revenues recently being reported since the start of FY18. It has committed to opening new stores, refreshing its offering to trade plumbers and significantly improving its efficiency in delivering the right products in full and on time. It has been significantly impacted in the past two years by the weak Western Australia market, where it has a number of stores.

CEO appointment

Turning to **slide 28,** I would now like to share more about our new CEO.

Following an extensive search I am pleased to confirm Ross Taylor will join Fletcher Building as Chief Executive Officer on 22 November 2017.

Ross has spent an impressive career in the construction, real estate, manufacturing and engineering sectors internationally, with direct experience across much of the sector value chain. He has worked extensively across our core markets of New Zealand and Australia, as well as Europe, Asia and the USA.

Ross was most recently CEO of UGL, an international engineering, services, construction and product manufacturing business. UGL operates across the rail, transport and technology systems, power, resources, water and defence sectors and is headquartered in Australia. It was recently acquired by CIMIC, a major international construction company.

Prior to this he was Managing Director and CEO of Tenix, a privately held engineering and construction services company that was acquired by Downer in 2014. Prior to Tenix he held various senior leadership roles at Lend Lease across a 23 year period.

The Board was impressed with Ross's proven experience leading business turnarounds and improving performance and shareholder returns, and his direct experience across a range of Fletcher Building's core sectors – including housing, manufacturing and construction.

To remark on just a few of his achievements, during his time as CEO and Managing Director of both UGL and Tenix he returned both loss-making businesses to profitability. At UGL he doubled the share price in two years.

As Chief Operating Officer and Board Director of Lend Lease he was responsible for all operating businesses globally. He reset the strategic direction of Lend Lease's construction business and restored results after successive years of underperformance.

He is also a leader who is very firmly focussed on people and culture, safety performance, client and customer satisfaction and sustainability, which are the foundations of any successful company.

The Board and I are confident that Ross has the experience, expertise and leadership capability to lead Fletcher Building into a new phase of growth and opportunity, and we look forward to introducing him to shareholders in due course.

I would like to take the opportunity now to offer a personal thank you to Francisco Irazusta, who has been serving as Interim CEO since July.

It is no easy task to act in an interim capacity, and Francisco has done so ably since he stepped into the role in July.

He is an exceptional leader who has provided a steady hand for the business during this transition and the Board and I thank him for this contribution.

We look forward to continuing to work with Francisco in his capacity as Chief Executive of our International Division.

Strategic review

Turning now to **slide 30**.

Upon Ross's commencement he will work with the Executive team and the Board to review Fletcher Building's strategy.

The Executive team and the Board have commenced the work necessary to assist this process, including a review of current business performance and the competitive landscape across our portfolio.

Fletcher Building is a diversified, portfolio business. We continually review our portfolio to ensure we are allocating capital in a way that delivers the most value to our shareholders.

The Board is looking forward to working with Ross and his Executive team to ensure we continue to position the company for long-term, sustainable growth.

2018 Outlook

Turning to **slide 32**, I would like to now spend a little bit of time talking about the outlook for the group and the approach we have decided to take to providing earnings guidance to the market.

In New Zealand, we are still expecting to see robust levels of activity in the residential and infrastructure construction markets in FY18, and potentially beyond.

Overall activity levels are being constrained to a degree by resource constraints across the industry, unusually wet weather in the first quarter, and also anticipation around the election result and new government policy.

In the first quarter of FY18, our building materials and distribution businesses recorded flat to low single-digit year-on-year growth, with strained supply chains creating cost headwinds in some areas.

Although there are some recent signs of the Auckland housing market cooling, we still believe the significant shortage of housing underpins demand and our volumes delivered year-to-date are in line with expectations. Here too industry capacity constraints, both in terms of the consenting and building of developments, may have an impact on the volume of houses being built in Auckland and full-year sales volumes for our Fletcher Living residential business.

Infrastructure spending in both Australia and New Zealand remains robust.

In Australia, growth in the overall market is flat to slightly down, which is in line with our expectations. The eastern seaboard remains solid but is offset by continued challenges in Western Australia.

Turnarounds are key to our FY18 performance in Australia, with cost headwinds on energy also a factor.

For our Formica business we expect modest growth in local currency terms for the laminates markets in Europe, Asia and North America.

And we continue to face headwinds in our Building + Interiors business relating to our legacy projects.

Earnings Guidance

Turning now to guidance on **slide 33**.

We have increasingly found ourselves talking to shareholders about expectations around future earnings in two categories: for our Building + Interiors business, and the rest of the company.

While the performance of the Group outside Building + Interiors is solid, there remains significant uncertainty in estimating the final outcomes of the major Building + Interiors projects, especially the Convention Centre. The KPMG Review has reinforced this point.

It is for this reason that Fletcher Building is issuing guidance for the Group excluding the Building + Interiors business.

For the Group excluding Building + Interiors, we estimate earnings before interest, tax and significant items for FY18 to be in the range of $680 million to $720 million.

For Building + Interiors, given the deterioration of the major projects, in particular the Convention Centre but also some additional costs being incurred on other projects such as the Justice Precinct, we expect losses in Building + Interiors in FY18 to be $160 million.

This is based on a balanced view across the portfolio of Building + Interiors projects.

We are aware that further downside risk and uncertainty exists in Building + Interiors, and are cognisant of wanting to provide the market with as much transparency around these risks as possible.

For this reason, Fletcher Building will be providing more detailed updates to shareholders on the performance of the Building + Interiors business and the progress and provisioning on key projects. We will provide the next update at the half-year results announcement, and will do so again in May, at the full-year results in August, and the Annual Shareholders Meeting in October. We will provide these updates until the last of the major B+I projects is completed in the second-half of calendar year 2019.

End