**2014 Annual Shareholders' Meeting**

10.30 am Tuesday 21 October 2014
Eden Park
Auckland

**Chairman's Speech**

**Annual Shareholders' Meeting 2014**

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## Welcome

Good morning ladies and gentlemen. Welcome to the 2014 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) and Foodstuffs (New Zealand) 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 is a director of ANZ Bank New Zealand and Avonhead Mall.

Alan Jackson was appointed to the board in 2009. He has been an international consultant since 1987 and was until 2009 chairman of Australasia 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 Delegats Wines and chairman of Thorough Vision.

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, a director of The New Zealand Initiative, 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 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.

Sir Ralph Norris re-joined the board in April of this year, having previously served as a non-executive director of Fletcher Building from 2001 to 2005. Sir Ralph retired as managing director and chief executive officer of the Commonwealth Bank of Australia in November 2011, prior to which he was chief executive officer of Air New Zealand and chief executive of ASB Bank. He is a director of Fonterra Co-operative Group, Fonterra Shareholders Fund, Origin Energy, New Zealand Treasury, and a member of the NZ Olympic Advisory Committee, the University of Auckland Council, and the Juvenile Diabetes research Foundation Advisory Board.

Sir Ralph has been elected by the board to succeed me as chairman, and he will address you during the course of the meeting.

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 UGL, Sonic Healthcare and SMEC Holdings (Australia). She is a member of the International Ethics Standards Board for Accountants and is a fellow of the Australian Institute of Directors.

Cecilia Tarrant joined the board in 2011. She has over 20 years' experience in international banking and finance in the United States and Europe. Cecilia is a director of Annuitas Management and Shopping Centres Australasia Property Group Trustee NZ, and deputy chair of the Government Superannuation Fund Authority. Cecilia is also a member of The University of Auckland Council and an Executive-in-Residence at The University of Auckland Business School.

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 Charles Bolt, our Company Secretary and General Counsel.

**Meeting Agenda**

I will shortly provide an overview of the company's performance for the 2014 financial year. Mark Adamson will then address you and discuss the progress in the past year against the company's strategic priorities, and outline the key areas of focus for the year ahead.

At the conclusion of Mark's presentation, I will discuss the trading and financial outlook for the 2015 financial year, and we will then take the opportunity for questions and discussion from the floor. I will outline the procedure for that part of the meeting when we reach it.

The formal proceedings this year comprise five 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.

For your information, next year we will be introducing electronic voting which we hope will encourage greater participation by shareholders in the annual meeting process. We have been working with the share registry to ensure everything is in place for 2015. I'd also like to acknowledge the encouragement we've had from the New Zealand Shareholders Association to pursue electronic voting and proxy appointment.

**Review of 2014 Performance**

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

Reported results were adversely affected by the impacts of the strong New Zealand dollar, particularly against the Australian dollar.

Top line revenue on a reported basis was down 1 per cent at $8.4 billion. However, if we adjust for the adverse impacts of foreign currency translation, underlying revenue was actually 4 per cent higher. New Zealand revenue was up 5 per cent, Australia was up 2 per cent, and the Rest of the World was also 5 per cent higher.

Reported net earnings were up 4 per cent to $339 million. Included in this figure were $23 million of significant items after tax, relating to the sale of three businesses during the year. Adjusting for these items, net earnings were 11 per cent higher at $362 million.

Operating earnings before significant items were 10 per cent higher at $624 million, which was within the guidance range for earnings we provided at the annual shareholders meeting a year ago. The impact of currency on the translation of reported results was significant. Had there been no currency movement during the year, operating earnings would have been $28 million higher at $652 million, some 15 per cent higher than the prior year and slightly above the top end of our guidance range.

In assessing the performance for the year, it is necessary to distinguish between macro-economic influences on our key markets, and the specific factors that drove business unit outcomes.

In New Zealand, the sustained increase in activity across the construction industry drove strong volume growth in many of our businesses. New housing consents tracked continually higher throughout the year, and finished the year above the long run average. This was driven by rising demand for new housing in Auckland, partly in response to very strong net migration inflows, and new housing construction in Christchurch. In addition, infrastructure work continued at a very strong pace and an improvement in commercial construction was seen during the year.

New Zealand operating earnings before significant items were up 27 per cent to $362 million. A number of our business units achieved substantial growth in volumes and revenues, including Golden Bay Cement, Winstone Aggregates, Firth, PlaceMakers, and Winstone Wallboards. All of these businesses benefitted from higher volumes which positively impacted their manufacturing results. However, with the high New Zealand dollar, the pricing environment remained flat at best and in general gross margins were lower than for the prior year.

Conditions in Australia were mixed throughout the year. There were encouraging headline numbers around the trend in housing consents which reached near-record levels. These were driven in large measure by a ramp up in construction of apartments and multi-family developments. Our largest exposure in Australia is to stand-alone housing construction and, by contrast, consents for single dwelling construction were relatively subdued for much of the year although they improved in the second half.

Other sectors within the construction industry saw reduced demand. The decline in new mining investment had a knock-on impact on activity levels of associated support infrastructure. At the same time, the weak fiscal position of both State and Federal governments resulted in a slow-down in infrastructure spending.

Consequently, reported operating earnings before significant items from our Australian businesses declined by 16 per cent to $171 million. In local Australian currency terms, however, the reduction was less dramatic with a decline of 6 per cent, and this illustrates the point I made earlier about the impacts of currency on earnings.

Looking at performance highlights in Australia, we saw a strong turn around in the Tradelink business with operating earnings more than doubling. Laminex recorded a 10 per cent increase in operating earnings as they benefitted from the pick-up in residential demand. However, those businesses exposed to the mining and infrastructure sectors, particularly Rocla and Iplex, recorded lower operating earnings with volumes and margins down on the prior year.

Operating earnings from our businesses beyond New Zealand and Australia were up 14 per cent. This was due in large measure to a 9 per cent increase in earnings from Formica, with a strong contribution from North America and improved earnings in Europe.

Pleasingly, all of our divisions recorded increased operating earnings over the prior year despite the currency headwinds.

**Dividend**

During the year, we revised the company's dividend policy to better reflect our practice of recent years. The most important change was the establishment of a dividend pay-out ratio, in the range of 50 to 75 per cent of net earnings. This range has been set with the objective of allowing dividends to be maintained despite variations in economic and market conditions through the cycle.

With strong growth in underlying earnings, we were able to increase the dividend for the year by 6 per cent to 36 cents per share, from 34 cents last year. As we signalled at last year's meeting, the rate of increase in the dividend was lower than underlying earnings growth. This was consistent with our goal of growing the dividend but reducing the pay-out ratio from the top of our target pay-out range. This pay-out ratio for the 2014 dividend was 68 per cent of net earnings before significant items, compared with 71 per cent in 2013.

**Total shareholder returns**

The total return to shareholders for the year to 30 June 2014 was 9 per cent, representing a combination of dividends and share price appreciation. Whilst this is a satisfactory return on an annual basis, it is somewhat overshadowed by the 51 per cent return delivered in the prior year. Shareholders will, I am sure, comprehend that these are single point in time measurements and that looking at returns over a longer timeframe provides a better assessment of performance. The prior year was characterised by a positive re-rating of building materials companies across Australia and New Zealand, while in the most recent year we had a broad stabilisation in the share prices of building materials companies at higher levels.

**Balance Sheet**

In addition to the changes we made to the dividend policy earlier this year, we also updated the key policies in respect of our balance sheet. In summary, we will continue to target a strong financial position with relevant metrics that align with a solid investment grade credit rating and consistent with our industry peers.

At year end gearing, measured by the ratio of net debt to net debt plus equity, was down from 33 per cent last year to 32 per cent, with much of the reduction explained by currency movements. While there is potential to further reduce gearing, we will prioritise investing in the growth parts of our business rather than simply further reducing debt, given we already have a conservative balance sheet.

**Progress on Strategic Priorities**

In addition to delivering a strong trading performance, excellent progress was made during the year in delivering on the company's strategic priorities. Mark will touch on these in greater detail in his presentation, but some of the highlights for the year include:

- the review of the business portfolio and the successful divestments of Pacific Steel and Hudson Building Supplies;
- the delivery of the first full year of benefits from the FBUnite business transformation programme;
- the expansion of the residential development business in New Zealand;
- the opening of the new Formica plant in JiuJiang, China; and
- initiatives focused on employee development and lifting employee engagement.

**Board Changes**

At this meeting last year, I announced that I would be retiring from the board towards the end of 2014, and that a new director would be appointed in advance of my retirement to fill the seat I will vacate. Consequently, we were delighted to announce earlier this year the appointment of Sir Ralph Norris to the board. As I mentioned when introducing the board to you, Sir Ralph has in fact re-joined the board of Fletcher Building having previously served as a non-executive director between 2001 and 2005. In August, the board unanimously elected Sir Ralph the chairman designate of Fletcher Building, and Sir Ralph will succeed me as chairman at the conclusion of this meeting.

I welcome Sir Ralph back to the board and wish him every success as chairman.

Apart from my imminent retirement and Sir Ralph's appointment, there were no other changes to the board.

Let me now hand over to Fletcher Building's Chief Executive, Mark Adamson, who will address you.

**Outlook**

We have now completed the first three trading months in the new financial year. In New Zealand, we have seen continued volume growth and improved trading results, although there has been some variability in performance month by month. Conditions in Australia have continued to be mixed, with residential volumes improving but weak demand across the infrastructure, mining and commercial sectors.

In New Zealand, we expect the strong activity levels experienced throughout 2014 to continue. The positive trend in residential housing consents in the second half of last year will flow through to housing construction, and consents are expected to remain above long run average due to the very strong net migration flows coupled with continued demand for new housing in Canterbury. We have a very strong construction backlog of $1.8 billion, consisting of a number of large infrastructure projects, and the prospects for both the commercial and infrastructure construction sectors are excellent.

In Australia, we expect the improvement in stand-alone housing consents experienced in the latter half of 2014 to assist volumes in those businesses that are exposed to the residential sector. Operating results will also benefit from restructuring and business improvement initiatives particularly in the Laminex and Tradelink businesses. The non-residential outlook is less positive, with declining private sector mining investment and relatively low levels of budgeted government expenditure on core road and rail infrastructure projects, at least for the next 12 months. We do not expect to see a marked improvement in commercial construction activity.

In North America, we expect a moderation in the rate of increase in new housing construction while a sustained up-turn in commercial construction activity, the biggest driver of Formica's revenues, remains elusive.

Modest improvement is expected in Europe, particularly with a recovery in volumes in the UK.

Further volume growth is expected in South East Asian markets which will be supplied from the new Formica plant in JiuJiang in China, but the domestic Chinese and Taiwanese markets are likely to be relatively flat.

The FBUnite business transformation programme will deliver a further $25 million reduction in operating costs and efficiency benefits this year.

In terms of the earnings outlook for the 2015 financial year, and having regard to the assumptions around market conditions, our expectation is that operating earnings, that is, earnings before interest, tax and significant items, will be between $650 million and $690 million.

We expect operating earnings in the first half of the year to be broadly flat on the prior corresponding period, while second half earnings are expected to be significantly ahead.

While the first half is expected to show growth in New Zealand earnings and a stable contribution from the Rest of the World, lower first-half Australian earnings are likely due to weak demand for coal seam gas pipes and lower volumes in the steel roll-forming and concrete products businesses.

**Farewell**

Ladies and gentlemen, before we open up to questions from the floor, and then move on to the formal part of the meeting, I wanted to take this opportunity to thank you for support over the past thirteen years. Since becoming chief executive officer in 2001, and on through my time as a non-executive director and then subsequently as chairman, I have found my involvement with Fletcher Building to be always stimulating and very satisfying. The company has grown from being a solely New Zealand business in 2001 to be Australasia's largest building materials company, and has weathered both tough times and enjoyed buoyant conditions. Such is the nature of a company exposed to the ebb and flow of the construction sector.

As I retire from Fletcher Building, I know that the business is in good hands, with strong leadership, a sound financial position, and excellent prospects for the years ahead.

Let me conclude by thanking the board for their collective contribution to the strong governance that has been a hallmark of Fletcher Building. I wish them, Mark and the management team, and indeed all the shareholders, the very best for the future success of the company.

Thank you for your attendance, and I invite you to join the directors and management for refreshments. As the business of the meeting is now completed, I declare the meeting closed.

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