FLETCHER BUILDING LIMITED

Annual Shareholders' Meeting 2015

Chairman and Chief Executive Officer Speeches

Annual Shareholders' Meeting 2015

Chairman and Chief Executive Officer Speeches

CHAIRMAN

Welcome

Good morning ladies and gentlemen. Welcome to the 2015 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. Tony 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 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 Delegat Group and Chairman of NZ Thoroughbred Racing.

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 Arts Festival Trust, a director of The New Zealand Initiative, and a member of the Otago University Business School Board of Advisors.

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.

Kate 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 Chairman of UGL, and a director of Adairs, Sonic Healthcare and SMEC Holdings (Australia). She 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.

Steve Vamos joined the board in July this year. 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.

Steve joined the board to replace Gene Tilbrook who retired from the board in April. We welcome Steve to Fletcher Building. I would like to formally thank Gene for the significant contribution that he has made to the board during his tenure since 2009. Fletcher Building has benefited from his deep financial and strategic experience and his knowledge of the Australian market in particular.

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 2015 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 2016 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 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 2015 Performance

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

We recorded net earnings of $270 million for the year ended 30 June 2015. This compares with net earnings of $339 million that we achieved in the 2014 financial year. This year's result included significant items totalling $150 million; these related to the impairment of goodwill and the costs associated with several plant closures that we made during the year.

Net earnings excluding significant items were $399 million, which was 10% higher than the prior year.

Similarly, operating earnings, that is, earnings before interest and tax, were $503 million, compared with $592 million in the prior year. Operating earnings excluding significant items were $653 million, up 5% on the prior year and in line with the guidance we provided a year ago.

Earnings per share excluding significant items were 58 cents per share, 10% higher than for 2014.

Overall, the result was satisfactory and the strong underlying earnings growth was driven by a number of standout performances amongst our business units.

The significant items included the $78 million impairment of goodwill arising from acquisitions made over the past decade. This impairment was due to a reduction in the future earnings prospects of these businesses. These impairments were non-cash in nature.

In addition, we incurred costs totalling $65 million relating to the closure of the Crane Copper Tube business in Australia, and site closures in Iplex Australia, Stramit, Humes and Forman. The decision to close sites is never an easy one, but the sites we have closed will help to ensure that we have the right footprint for our manufacturing and distribution businesses and that our cost base remains competitive.

What was particularly pleasing about the 2015 result was a very strong cash performance, with operating cash flow up 18 per cent to $575 million. This was a function of both higher earnings together with lower working capital requirements.

The growth in underlying earnings that we experienced was driven by strong market conditions in New Zealand, offset by a more mixed set of industry fundamentals in Australia.

In New Zealand, operating earnings rose by 24 per cent. We saw continued growth in residential consent numbers in New Zealand over the year, although the pace of growth slowed later in the year. Residential consents are now running at 8 per cent above the long run trend.

What has been interesting to observe over the past year has been the shift in underlying demand drivers. Auckland has recorded strong growth in new housing demand and was very much the driving force behind the new consenting activity, while Christchurch growth slowed considerably over the year.

Net migration climbed throughout the year and approached record levels, and this has clearly impacted demand for housing, particularly in Auckland.

Another trend we have seen in the past year has been the rise in the number of multi-unit dwellings and apartments consented. In the year to June, multi-unit dwelling accounted for 29 per cent of total consents, double the number 5 years ago.

Government funded infrastructure activity remained strong, and there was also a marked increase in commercial activity with the value of commercial consents rising by over 20 per cent year on year. These activity levels flowed into increased demand for building materials and we saw excellent growth in volumes for most of our core product lines.

Conditions in Australia were more mixed, and operating earnings were down 30 per cent. There is no doubt that the residential construction market has been the bright spot across the industry. Consents have been running at record levels, with multi-residential consents tracking ever higher, although stand-alone housing permit levels flattened out.

Beyond New Zealand and Australia, conditions have continued to be more mixed. Operating earnings were down 7 per cent, with a strong performance from Formica in North America, but mixed conditions in Europe and a more difficult trading environment experienced in China.

Dividend

Last year we revised the company’s dividend policy to establish a target dividend pay-out ratio, in the range of 50 to 75 per cent of net earnings. This range was set with the objective of allowing dividends to be maintained despite variations in market conditions through the economic cycle.

The total dividend for the year increased to 37 cents per share, from 36 cents per share last year. This increase was lower than the 10 per cent growth in underlying net earnings, and 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 2015 dividend was 64 per cent of net earnings before significant items, compared with 68 per cent in 2014.

Total shareholder returns

The total return to shareholders for the year to 30 June 2015 was minus 3 per cent, with the positive return from the dividends paid offset by a reduction in the share price over the year. While a disappointing outcome for the year, it should be seen in the context of increased volatility in equity markets that we have observed throughout 2015. Also, two years ago the return to shareholders was 51 per cent, followed by a 9 per cent return in 2014. If we take a longer term view, and look back over the past 3 years, shareholders have averaged an annual return of almost 17 per cent per annum.

Balance Sheet

Turning now to our balance sheet, we have maintained a strong financial position. As in prior years, we have continued to target financial metrics that ensure we retain high quality investment grade credit characteristics and that we remain in line with our industry peers.

At year end, gearing, measured by the ratio of net debt to net debt plus equity, remained unchanged at 32 per cent. This was a pleasing outcome given the additional investment we made in residential land during the year, and was a result of the strong operating cash flows generated across the company. We expect to continue to maintain a strong financial position in the year ahead.

Health and safety

Fletcher Building's approach to managing safety, health, environment and sustainability aspects of our operations is driven by a core belief in being a responsible business. Our leadership team and individual business managers are responsible for continuing to reduce risk and improving our performance in these areas.

Importantly, the board has further extended its oversight of this part of the business. We have established a board committee dedicated to health, safety, environment and sustainability governance, with regular structured interactions with the management team. In addition, we have introduced an external assurance programme whose findings on our broad sustainability performance are reported through to the board.

Maintaining a strong focus on health and safety hazards that could result in serious injuries or fatalities continues to be key for us. Over the last year our recorded rate of reportable injuries plateaued. The rate of total reportable injuries per million employee and contractor hours rose for the first time in five years from 6.0 to 6.4. In June 2005 this rate was over 60, so we have made huge advances over the past decade.

We need to continue this focus on health and safety, and have identified a number of significant hazard areas for increased focus. These include working at height, vehicles, materials handling, mobile equipment, and fixed plant and equipment. We are investing in improved risk management tools, development of standards and competency of supervisory teams to manage these risk areas.

Progress on Strategic Priorities

Over the past year, the board has worked with the management team in refining the strategic direction of the company. Late last year, we undertook a review of the entire business portfolio and the returns that it is generating. This work has informed where we prioritise our efforts and investment going forward.

We have been clear for some time now about the need to continually evaluate our portfolio of businesses, to focus on those areas of best opportunity and to divest for value where we do not see Fletcher Building having a long term position.

We have continued to make good progress in rationalising the portfolio. Following the sale of Pacific Steel and Hudson Building Supplies in 2014, we announced in August the sale of Rocla Quarry Products. Rocla is a sound business, with excellent sand quarry resources across Australia, but has been something of a stranded asset for Fletcher Building. Without a position in upstream cement manufacturing or downstream ready-mix concrete in Australia, we did not have a strategic requirement to own this business. As such, we have been able to divest the business for a full and fair value to a strategic buyer. We expect this sale to be completed in January.

A further important outcome of the review has been the identification of a number of opportunities to grow organically through expanding selected existing businesses. Conversely, we discerned very few areas for investment where we could generate satisfactory returns through acquisitions.

The organic growth areas we are prioritising include our residential development business in New Zealand, our civil and engineering construction business, and our distribution businesses in both Australia and New Zealand. While we remain open to further investment through acquisitions where we can see strong returns and where such investments are sufficiently linked to our chosen growth priorities, these opportunities are likely to be limited in number.

Mark will provide further detail on our strategic direction shortly. In summary, we recognise that we must deliver further value from our existing operations, through revenue growth and market share gains, and through effective cost control and margin enhancement. This remains the number one priority for the board and management.

Management changes

Over the past year, there have been a number of new appointments to executive management roles. These appointments have been consistent with our goal of building capability and leadership bench strength. A number of the changes resulted from the aggregation of smaller business units into larger entities, and the consequent stream-lining of the company's structure. The board have fully supported Mark and the changes he has made.

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

CHIEF EXECUTIVE

Thank you Chairman, and good morning ladies and gentlemen.

Sir Ralph has already discussed our 2015 financial performance. What I would like to do is review some of the operational highlights for the past year, and then discuss our priorities for the future.

2015 Operational Review

In the past year, we recorded very strong performances in a number of our businesses, and real progress in delivering on our strategic growth agenda.

In terms of volumes, we've seen some truly pleasing increases.

We experienced strong volume growth across the NZ concrete chain, driven by the growth in the construction sector, with cement volumes up 9 per cent and ready-mix concrete volumes up 14 per cent. In light building products, we enjoyed similar growth with plasterboard volumes rising 7 per cent and aluminium windows and doors up 11 per cent.

Another highlight was in our New Zealand Distribution division. A year ago we combined the PlaceMakers and Mico businesses with our steel distribution businesses, and the reinvigorated leadership helped to drive volume growth of 17 to 20 per cent. At the same time, PlaceMakers delivered the highest retained earnings in its history.

In Canterbury, we completed the EQR home repair programme involving 65,000 permanent house repairs in April. Subsequently we have agreed an extension of a further year to April 2016 for additional home repairs which were beyond the original scope of the programme. We are very proud of what we have achieved with EQR, and the achievements of the EQR team have been borne out by the extension to the original contract.

Our strategy of expanding our residential development and construction businesses continued to bear fruit. The number of completed homes sold rose by a third, and Fletcher Construction won a record level of new contracted work during the year.

In Australia, the strength of the residential construction sector helped a number of our businesses, with insulation volumes up 22 percent, and Laminex' operating earnings rising 30 percent.

Other parts of our Australian portfolio experienced tougher market conditions, most notably in the mining and energy sectors, but also due to lower state and federal government spending on core infrastructure programmes. This resulted in reduced earnings in several of our businesses. Most notable was Iplex, where a steep fall in demand from the coal seam gas projects in Queensland dramatically reduced earnings. What was pleasing, however, was the response of the management team to reshape the business in these challenging conditions.

FBUnite, the business transformation programme, delivered a further $25 million in cost savings in 2015, bringing the total delivered benefits to $50 million. What is equally pleasing is the impact the operations excellence programmes have had in offsetting inflation in our manufacturing and distribution operations. We estimate this saved a further $50 million in FY15.

Strategic Priorities

I would now like to share with you our future areas of focus.

Fletcher Building has four strategic priorities that are being executed across every level of the organisation. These are:

1- People: making Fletcher Building a great place to work. This means going home safe every day, building leadership and capability and creating an engaged, high-performance workforce across the entire business.

2 - Customers: focusing on delivering what our customers value and helping them to succeed.

3 - Efficiency: using our scale and expertise to improve the effectiveness of our operations and drive down costs.

4 - Profitable Growth: investing where we can win, particularly in Residential, Construction and Distribution.

Let me briefly discuss each of these in turn.

People

In this past year, we have continued to invest in our people.

Our people strategy is built around four pillars – organisational design, leadership, talent and culture. In the past year, we have simplified our structure to focus on our customers, with the creation of fewer, larger business units. This had led to the creation of larger business unit general manager roles, and has provided our best managers with the chance to build their careers and expand their experience base.

Over the past several years, Fletcher Building has invested in leadership programmes that aim to develop the capability we need to support our business strategy. Our objective was to create a world class leadership framework, and we have achieved it. The quality and innovative design of our leadership programmes have been recognised around the world winning a number of global awards. In 2015, our leadership programmes expanded from Australasia to include our global business with great success. We also delivered a learning curriculum to over 7,000 employees globally.

At the same time, we have increased our focus on building a deeper pipeline of diverse talent for internal recruitment. Our focus on talent regeneration has created a strong succession pool of candidates to fill critical leadership roles across the group.

We have a Diversity Council, which I chair, to ensure that we drive continued improvements. Our diversity strategy is focused on developing a strong pipeline of diverse talent; working with community and government organisations to provide employment opportunities to youth; and creating an inclusive work environment for all our employees.

Women in leadership has been a specific focus over the past three years. Since 2012, there has been a 73% increase in female leaders at general manager level. Our female leaders have access to specific development opportunities, mentoring, and network events.

FBuSay, our annual employee engagement survey, available in 15 languages, was completed by over 17,000 staff. All key engagement indicators improved this year. To reinforce the importance of building employee engagement all of our business leaders have engagement targets as part of their short term incentive scheme.

Underpinning all of our efforts are our vision and values. They create a shared sense of what it means to be Fletcher Building and alignment around a common purpose and way of working. This year we launched a new vision and set of values for the company, which we have rolled out globally across the group. Our vision is “Building Better, Together” and it is supported by four values or behaviours:

- Be Bold
- Customer Leading
- Better Every Day
- Play Fair

We knew that to succeed, the vision and values needed to be owned and shaped with input from a wide range of people across the company. The enthusiasm with which the new vision and values have been embraced around the world has been a highlight of the year for me. As I travel around each of our businesses, I can sense that employees now feel more connected to the organisation, our vision and our future success. And it is inspiring to see how the values are being embedded in everyday processes and are guiding Fletcher Building's transformation to becoming a collaborative, customer leading organisation.

Customer

Fundamental to our future success will be our ability to grow market share in a profitable and sustainable way. We recognise that this can only be achieved by delivering superior customer value propositions through innovation in products, systems and services. Providing complete, seamless end-to-end solutions allows us to achieve a differentiated customer experience. This is easy to say but harder to achieve.

Product innovation is a key part of how we will better serve our customers. We are increasing our use of online tools developed to enable customers to design and submit their specific requirements. In addition, with many consumers now carrying out the majority of their pre-purchase research online, we are continuing to build upon and improve our capability across social media platforms. By way of example, Laminex Australia now has the largest social media presence in the decorative services industry for the entire Asia Pacific region.

A new sales and marketing excellence programme is being developed across all of Fletcher Building to further support the business in delivering our ambitious objectives. We aim to create increased demand for our products through marketing strategies, targeted at our main customers and market influencers. Also, we are increasing collaboration across the group to ensure we maximise opportunities to provide mutual customers with a more complete product and service offering.

One very visible example of our renewed customer focus can be seen here in New Zealand in both our Mico and PlaceMakers stores. During the year we launched customer service promises relating to product availability, collection and delivery, in-bound calls and invoicing. To reinforce their customer commitment, PlaceMakers and Mico are making public their customer service scores. Visit any of our branches and you will be able to see this in action for yourself.

Efficiency

The FBUnite programme has successfully established core capabilities which we can leverage to drive our earnings performance going forward. Having built this platform and locked in the benefits, the focus for the management team has switched to scoping out what each business is capable of over the next few years. This exercise will be key in helping to prioritise capital investment, technology and management resource.

The scoping process started with a bottom up exercise done by each business unit. More recently, we have complemented this with an external diagnostic “top-down” assessment, undertaken to validate the initial results and to help determine whether there were further opportunities to improve Fletcher Building’s performance.

This second analysis, done from a pan-company perspective rather than on an individual business unit basis, has identified significant opportunity to further improve earnings. Specific areas include extending our central procurement operations and leveraging the low cost country sourcing office we have established in Shanghai; centralising a wider range of back office and core support functions including finance, human resources and IT; and driving productivity and supply chain improvements across our manufacturing, distribution and construction activities.

In essence, this work has identified that we have further opportunity to drive value from the core capability that we built with the FBUnite programmes, by extending their breadth and their reach, and the speed with which we execute them.

At this stage we have not accurately quantified the value we can deliver from accelerating these activities, however, we are of the view that they will exceed the $100 million that FBUnite is on track to deliver. We see this next phase not as a one-off programme, rather, a driver of significant culture change in how we do business in the future.

Profitable Growth

The fourth strategic area is further growing our core business profitably. As Sir Ralph has already mentioned, the areas we have identified as offering the most opportunity are New Zealand residential development, construction activities in New Zealand and the South Pacific, and trade distribution in New Zealand and Australia. These are businesses where we believe we have differentiated capabilities, cost positions and customer relationships, and that offer substantial room for growth.

Fletcher Living, our residential development business, had a record year in 2015, with operating earnings of $66 million, which were 35 per cent higher than the prior year. This was driven by the strong increase in the number of homes we sold in the year, up by a third on the prior year.

We have ambitious plans to further expand this business, with the ultimate goal of lifting the number of homes we bring to market each year from an historical average of 300, to 1500. To achieve this, we are working on three fronts.

The first is a continuation of our traditional activity where we buy completed lots from land developers. The second is where we buy bare land for development, and master plan whole new communities. Third, we are partnering with the government to develop existing land with increased density to cater for a wider range of housing needs.

During the year, we were pleased to win the tender to develop the East Frame in Christchurch. This will see up to 900 medium density homes and apartments built over the next decade and will provide a unique high quality experience for people wanting to live in the rejuvenated city centre. This is the third project we have concluded with the government, and is a new model which is going to bring more homes to the market more quickly, including affordable homes.

The expansion of our residential development business is requiring us to make substantial investment in land to enable us to meet the goal of delivering 1500 homes a year. Last year we invested a further $58 million in land net of house sales, and expect to invest a further $160 million in the current year.

Fletcher Construction is continuing to build on its outstanding track record. With a number of new contracts secured recently, its total contracted order book now stands at a record $3.4 billion.

The third area of growth is in our New Zealand and Australian distribution businesses. In New Zealand, we have seen PlaceMakers achieve record earnings, and Mico plumbing and bathrooms go from loss making two years ago to strongly profitable this year. In addition, as I have already mentioned, we have seen our steel distribution businesses flourish sitting within the Distribution division.

In Australia, we have made excellent progress in lifting the performance of our Tradelink plumbing distribution business. There remains much to be done to get that business to acceptable returns, but we are clear on our strategy and the early signs of customer acceptance are encouraging.

Across all our distribution businesses, we have identified further organic growth opportunities, from improving our store footprint, developing complete customer solutions, expanding our product range into adjacent categories, and expanding into entirely new but complementary categories. We will continue to invest in online and omni-channel platforms, and increasingly leverage our procurement capabilities to further source from low cost countries. We have a portfolio of strong distribution brands, trusted by the customers they serve, and this provides us with the opportunity to drive deeper customer connections through the services and products we procure or supply.

Thank you for your attention ladies and gentlemen, let me now hand back to the chairman for comments on the trading outlook for the year ahead.

CHAIRMAN

Thank you, Mark.

Let me now provide an update on the outlook for the 2016 financial year.

Outlook

We expect the current strong market conditions in the New Zealand construction industry to persist through the 2016 financial year, with ongoing demand for new housing particularly in Auckland and surrounding provinces, an increase in commercial construction activity off the back of the significant increase in the value of consents, and government expenditure on infrastructure to remain at the present healthy levels.

In Australia, the outlook is more mixed. Residential construction activity may slow particularly in the multi-dwelling segment, while stand-alone housing should be more resilient to potential changes in foreign capital inflows. Commercial construction activity is unlikely to lift from current levels. Continued federal and state government fiscal deficits are likely to mean that infrastructure activity is further constrained.

Residential and commercial construction activity levels in North America are expected to remain broadly consistent with the past year. European conditions are likely to remain mixed with a generally weak economic outlook. Further volume growth is expected in South East Asian markets but market conditions in China are likely to remain highly competitive.

In terms of financial guidance, we expect operating earnings, that is, earnings before interest, tax and significant items, to be in the range of $650 million to $690 million. This compares with operating earnings of $653 million earned in the prior year.

In comparing year over year performance, it is important to adjust for those businesses that we have sold, such as Pacific Steel and Rocla Quarries, together with other earnings streams which by their nature are set to decline such as EQR and the Stonefields residential development.

If we normalise operating earnings for the 2015 financial year to reflect these changes in our business activities, the relevant prior year comparator earnings figure would have been $610 million. Therefore, operating earnings in the range of $650 to $690 million will represent solid growth year on year from our continuing business operations.

For those that are interested, we have provided additional comments on the expected trading result for the year, and these can be found on our web site. They have also been lodged with the New Zealand and Australian stock exchanges.

General business

On that note I conclude my comments and now invite you to raise any matters in relation to the activities of the company on which you would like to hear our views. Mark or I will attempt to answer your questions, but if necessary we have the other board members, senior company executives and the auditors present.