Fletchers losses: the legacy of loose governance.

Fletcher's current issues started when Mark Adamson was appointed CEO. An interview Adamson gave in 2013 was the first sign he had captured the (former) Chair and board – a very dangerous situation for any company.
The restructuring under his watch with consequent losses of competent, qualified and experienced personnel was a blatant example of throwing out the baby with the bath water and as early as March 2015 NZSA was warning the company that this would have consequences. The result by mid-2015/2016 was a gutting of skills in B+I where along with some justified changes, many high performers left rather than face job insecurity and what appeared to have become a culture of fear.

Having got rid of far too many experienced staff, neither Adamson (who lacked construction experience and had no experience of the issues that arise in an overheated construction market) nor the board and Chairman were equipped to predict what would happen. The wise heads were gone.

The Fletchers board had plenty of warnings that all was not well in the real world, including from credible organisations such as NZSA. They were ignored. Attempts by the Chairman to deflect criticism by saying the major issues arose before his tenure do not carry much weight in our view. It may be true for the Christchurch Justice Precinct, but not for later projects. The timeline below shows some key dates.

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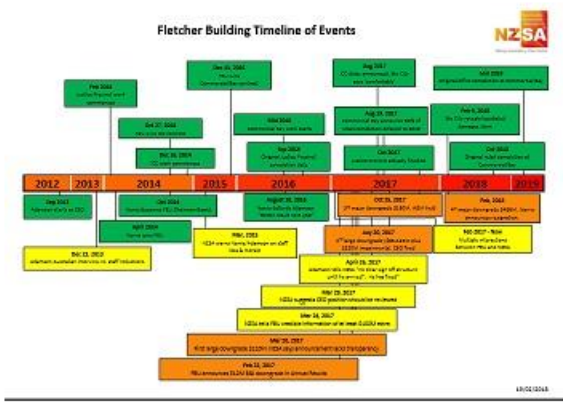

Information coming from outside the organisation should have set the alarm bells ringing. Once it has appointed a CEO, the role of a board and particularly the Chairman is to be a professional sceptic, particularly when it comes to assessing management's proposals and the quality of information the board receives.

In Fletcher's case, it appears there may have been a 'funnelling' effect with most information going through the CEO to the Chair. This is very high risk and Sir Ralph Norris has now acknowledged that the board did not receive all information in a timely fashion. The new CEO is on record as saying the latest disclosures are the result of a "sanity check" and a more pragmatic approach. What he means is that projections now align with reality.

Good governance requires all the board to be able to interact with all senior management and where credible concerns are raised to dig deeply into the organisation. They clearly failed to do so despite our repeated efforts

P 0800-6972-7478 | F 09-309-5260 | E admin@nzshareholders.co.nz | W www.nzshareholders.co.nz
Postal Address| PO Box 2494, Shortland Street, Auckland 1010, New Zealand.

to bring issues to their attention. And where was the former CFO in all of this? This is usually the person with sufficient overall knowledge of the company to challenge the CEO.

NZSA, almost alone, has been consistently calling for changes at Fletcher. Most of the institutional investors (who are primarily based offshore) have sat on their hands. It is extraordinary that we now see calls for major board changes, yet they were silent when NZSA suggested that the whole board needed to seek a fresh mandate at the last AGM. Incredibly, the vast majority of those institutional shareholders voted in favour of the re-election of a Director who was a member of the Audit and Risk Committee! Only NZSA had the guts to oppose this.

We said in media interviews yesterday that we believe the company has done its utmost on this occasion to assess the full extent of the damage, and we are reasonably confident that most of the bad news is now out. NZSA will continue to liaise with Fletcher and wants to see this iconic company's quality and integrity of governance restored. Shareholders will also want to see a big change from the consistent financial underperformance over a long period. The appointment of the new CEO who has the appropriate background, along with the departure of Sir Ralph and promised board refreshment is a necessary first step but it will be a slow process given the magnitude of the current damage.

Some questions remain. NZSA will no doubt have more to say after the announcement of FBU's half year results. We will also be looking closely at the role of the audit committee and external auditors. We will not be alone in this and it is highly likely that both regulators and litigation funders will be taking a close interest. This will be a distraction to the company but is an inevitable result of what is one of the most serious and damaging failures in many years.

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