FletcherBuilding

ANNUAL SHAREHOLDERS' MEETING

Ralph Waters
Chief Executive Officer

Tuesday 13 November 2001

Thank you Roderick and good afternoon ladies and gentlemen. At the outset, let me say how pleased I am to have been given the opportunity to lead Fletcher Building in its new independent existence. I can also say that Fletcher Building has more than met the expectation I had for it, when I made the decision to accept this role. I look forward to working with the board and the senior management team in realising the full potential of this company for shareholders.

As noted at the full year announcement and in the annual report, the Company has been organised along the four major lines of business in which we participate, namely Building Products, Concrete, Construction and Distribution. I will deal briefly with the results of each of these for the initial Fletcher Building trading period and for the pro-forma 12 month period.

Building Products

The major businesses are the manufacture and distribution of plasterboard, wood panels and associated hardware, aluminium extrusions and steel.

The slide shows the results for 2000, 2001 and the period since March. Unlike the other Fletcher Building businesses, for Building Products, the period since March was not demonstrably better than the nine months leading up to March. A major contributor was expensive power, which in some of those months was costing an additional $1 million in steel making alone. A number of other businesses were also affected. Over the full year, the downturn in residential construction was the major influence. The fall in demand had volume and price impacts and while in some cases, such as steel, the volume was compensated by increased exports, these came at much lower margins. Higher oil prices also had a pervasive affect on transport costs and on resins for wood panels. Notwithstanding a difficult year, Winstone Wallboards and Pacific Coilcoaters were standouts as each had very good results for the entire year.

Concrete

The major businesses are cement, aggregates, readymix concrete, and concrete products, including blocks and pipes. This group also includes the South American cement, concrete and aggregates interests.

Only our cement operations performed well, although the aggregates and readymix concrete operations were influenced by sizeable one-time costs. In the case of Winstone Aggregates, the exit from Auckland's Lunn Avenue quarry was expensive. Firth wrote off development costs relating to a number of new initiatives, such as all-concrete showhomes and panel construction systems. South America's results were poor through a combination of severe recessions in both Peru and Bolivia, where our businesses are based, and less than adequate management in dealing with the changed circumstances. The senior management has since been changed and overheads reduced, and trading performance, while still unsatisfactory, has improved markedly.

The Concrete group of businesses earned about half of their full year's earnings in the short period since separation and the earnings of that period are more indicative of the forward potential than those of the preceding nine months.

Construction

Construction includes New Zealand, South Pacific and Australian commercial construction plus the New Zealand engineering construction businesses. It also includes Fletcher Residential, New Zealand's largest homebuilder.

As noted from the slide, Construction lost $4 million in the first nine months, but made $9 million in the last three months for a net of $5 million for the year. The nature of construction contracts leads to lumpy profit reporting, with profits being conservatively recognised until project completion. Whilst the last quarter's $9 million should not be taken as an accurate indicator for the year ahead, our expectations are for significant improvement over the last full year result of $5 million. Two long-running disputes over the Manapouri Tailrace Tunnel and the Victorian hospitals' co-generation project in Australia, have now been settled. Along with a large and good quality backlog, this puts Construction in a good position for the 2002 year. Since June, Construction has signed contracts for the Auckland Hospital expansion project and the Grafton Gully motorway extension with a total value of $140 million, taking the Construction backlog to around $750 million. Residential sales were strong in the last two months of the year and continued that trend through the first quarter.

Distribution

Distribution includes PlaceMakers, Building Depot and the Hire-a-Hubby franchise.

Many stores in PlaceMakers are operated in joint venture with the store operator, and the total sales and profits of those stores are not included in the results reported under Distribution. They are equity accounted and our share of the joint venture store profits is reported as an after-tax addition to the Company's earnings.

In future, Fletcher Building will consolidate Distribution and thus report 100% of the stores' profit before interest and tax, and recognise the joint venturers' share of profits in the "minority interests" line of the accounts. This will provide the market with a more meaningful view of this important business. In broad terms, the Distribution business had total sales of around $640 million and a total EBIT of around $20 million, of which around 60% belong to the joint venture partners. The change will also result in the full debt of the Distribution business coming on to the Fletcher Building balance sheet. The additional debt we will carry in our accounts will be around $26 million even though some $13 million of this is actually funded by our joint venture partners. On balance, this is the more appropriate way to report this business.

The improved demand in the period from March translated to better profitability in Distribution, and this was further enhanced by a comprehensive list of performance improvement initiatives that are still being progressed.

In summary, it was a difficult full year for the Company because of poor demand, the high incidence of one-time costs and the distraction of separation already mentioned by the Chairman. The improved trading performance since Fletcher Building became a standalone business is encouraging, and is more indicative of the potential of this Company than the disappointing full year result for 2000-01.

I now want to dwell briefly on Management's focus for the year now under way.

The Chairman referred to several aspects of the performance improvement programme. We have made important changes to improve decision-making and accountability, including changes to governance processes, management structure, remuneration, and to capital expenditure approval processes. We have reduced costs through a review of supplier arrangements, and reductions in both head office staffing and the use of consultants. Our focus on these areas is continuing in the current year.

Performance improvement continues to be the main theme across our operations. The key areas of focus are in the Steel business, the Auckland aggregates and readymix segments of the Concrete business, and the South American assets. In the Construction business, our focus will be on maintaining the supply of good quality projects in our backlog.

The key portfolio issues include the ownership and positioning of the steel business in the light of any restructuring of the Australasian steel industry, and the South American assets, but a number of other areas of participation are also undergoing review. With profit improvement now being achieved in all businesses, there is however, no need for any “fire sale” of assets.

As I noted in the annual report, it is not enough to be disciplined and cost-effective. We must also generate from our own resources a supply of product and service initiatives capable of evolving into profitable growth businesses. We have several initiatives at different stages of development and are putting a high priority on progressing them. Meanwhile, we are introducing assessment processes to ensure that adequate time, creativity and other resources are devoted by management to this issue. I’ll comment just briefly on some key initiatives running at this point.

In the infrastructure area, we are working on enhanced materials to improve the performance and lifespan of roading materials. The growing volume of trucks on the road and their increased weight has affected roading durability. In many cases the existing bitumen-sealed roads have not been designed for these conditions.

We see excellent growth potential in the markets for cement stabilisation – both for treating existing roads and for the supply of cement-stabilised aggregates for road building. Cement stabilisation can also be used to upgrade marginal aggregates, saving premium quality resources for higher-value uses.

Our wood panels business has responded to extreme competitiveness in its markets by upgrading its product range in a number of ways. In particular, it has revamped and relaunched a long-standing hardboard product, Seratone; and developed and launched a new high density fibreboard product branded Armour.

The Seratone Silverseal Classics range is for use in wet-wall situations.

The purely decorative version of Seratone was also launched, using metallic colours and unique finishes to enter the commercial decorative market. The new ranges have been very successful with architects and designers.

The recently launched Armour is a high-value product that generates a significantly greater return than its parent, medium density fibreboard. Its durability, strength and resistance to impact, mean that it has a market where machining qualities require fast production, and where intricate detailing and sharp edges without finishing, sealant or sanding are sought such as in vacuum forming and foundry requirements. Armour offers significantly greater design flexibility in many situations over pre-existing materials, and should offer good opportunities for the Company.

A new business unit, called PipeWorks Rehabilitation Solutions, is specialising in evaluating and repairing underground pipelines. This involves inserting a felt tube impregnated with polyester resin into the pipeline, inflating it to the inner wall of the pipe and then curing it with hot water to fix it in place. It thus requires no excavation and minimises the environmental impact. Local authorities are increasingly finding rehabilitation of existing pipes more attractive than replacement, from both the financial and community acceptance perspectives.

The final initiative I will mention today is the continuing success of our gypsum wallboards business unit in creating growth in sales of higher-value performance boards.

Performance boards are designed to meet specific standards in areas such as fire and moisture resistance, noise control and toughness. They represent enhancements on the traditional wallboard that has graced the interiors of New Zealand houses for several decades, but become essentially a commodity in the process.

10 years ago, performance boards accounted for less than 20 per cent of our total wallboard sales. Under the Gib Living Solutions strategy, that proportion has been lifted to more than 37 per cent. Target markets have been broadened to include residential, education and health care segments. We confidently expect the proportion of high performance wallboard sales attributable to the Gib Living Solutions strategy to continue increasing.

And now, I am sure you would be interested in an update on trading since the end of last year and I will hand back to the Chairman to comment on that and the near term outlook.