FletcherBuilding

ANNUAL SHAREHOLDERS' MEETING

Dr Roderick Deane
Chairman

Tuesday 13 November 2001

PART 1

The formation of Fletcher Building is an event in the very recent past, and the circumstances and details will be fresh in your memory, so I will not go over them at length. Suffice to say that the company commenced trading on 24 March, after acquiring the Building operations of the former Fletcher Challenge Limited.

The process of separation from Fletcher Challenge was enormously complex. It was demanding on both directors and executives and required much reading and consideration by shareholders. It entailed considerable costs – not just in advisory fees, the write-off of tax losses and write down of some assets, but also in the form of unavoidable distraction from an operational focus for both the board and management. Since the separation, the reverse has been the case. With no complex structural matters requiring the attention of the board or management, we have been able to focus on operational performance and there has been a marked improvement in earnings. In that initial trading period of just over three months to June 2001, net earnings before unusual items were $22 million, compared to $12 million for the almost nine months leading up to separation. Of course there was some improvement in economic conditions, but your board is in no doubt that the huge task of separation had taken its toll on trading performance.

The duty of chairing this meeting is a pleasant one because the meeting has a simple agenda of resolutions for shareholders to consider; because we have a good management team firmly in place after the separation created some unexpected vacancies in some important positions; because the much improved earnings trend of the March to June period has continued; and not least because of the share price improvement since the company began trading.

While the Fletcher Challenge separation process was difficult and costly, the Board of that company was convinced that it was the necessary course to unlock the real value of the respective businesses. At the time, the Building shares were trading at less than $2.00 each. Our share price high since the separation is $2.75, attained in the uncertain market conditions following the September 11 attack on the United States and its aftermath. While we must always be cautious about interpreting market movements, I think we can say this is clear evidence that the market recognises the enhanced opportunities available to Fletcher Building as a standalone company, and that shareholders' interests are thus likely to be valued more appropriately.

At the time of the separation, our most important first task was to appoint a new Chief Executive. Michael Andrews, the CEO of Fletcher Challenge, stepped in as the acting CEO of Fletcher Building and played a key role in the recruitment process that led to the board appointing Ralph Waters in May this year. Ralph was also interviewed, individually, by every board member, prior to his appointment.

Ralph was formerly the CEO of Email Limited, a major Australian diversified industrial company. He was available only following the takeover of Email by its major steel suppliers Smorgon and OneSteel. We were delighted to obtain the services of such a strong and experienced CEO as Ralph. As you will see, he has settled into the job very well indeed.

Michael Andrews resigned from the board as of 30 June 2001, having completed the hand-over to Ralph. I wish to place on the record my thanks for the interim role played by Michael, and for the very significant load carried by him leading up to the separation.

In my address to last year's annual meeting of Fletcher Challenge, whilst foreshadowing the formation of Fletcher Building, I mentioned three key themes as being pivotal to unlocking the new company's value potential. These were:

1. an aggressive performance improvement programme;
2. a business portfolio re-alignment whereby some businesses would be divested; and
3. growth opportunities, but only to be actioned when operational performance merits investment in new growth initiatives.

I mention these again today because they remain absolutely relevant as our agenda, and they are totally consistent with the priorities of the new Chief Executive.

There has been an aggressive performance improvement programme, and this is ongoing. This has required changes to some past policies and practices, a review of key supplier arrangements and a greater reliance on self-sufficiency in carrying out management functions. Despite the latter, head office staffing has been significantly reduced and further efficiency gains are now being extracted from operations.

To deepen its dialogue with management on the issues confronting the company, the board is placing a greater emphasis on visiting the operations. Last month, across two days, we visited the major Wood Panels factories. In the month prior to that the board travelled to Golden Bay Cement, at Whangarei, for a site visit and presentations on that business's capital investment plans. We have also had an on-site review of the Steel operations. I expect that approximately half of our monthly meetings will involve such site visits. These will assist the board's contribution to the performance improvement programme.

Our portfolio review is ongoing, and is based on criteria that include industry structure, market size, business unit performance and long-term growth plans. There have been some divestments to date. $31 million of fixed assets and investments were divested up to June, and since balance date the Lunn Avenue quarry, the Aluminium Solution Centres, Cyclone, and further property sales have been completed. These asset sales will release a further $30 million.

The expectation of some market followers was that Fletcher Building would by now have had a more aggressive asset disposal plan. To this I would note two points. First, there are not always buyers available at the time businesses are made available for sale. Our aluminium extrusion business was a case in point. Most Australasian aluminium extruders had a difficult period last year, as aluminium prices fell and the building cycles in Australia and New Zealand were in decline. Thus it was no great surprise that only one offer was received and it was significantly below fair value. It would have been irresponsible to accept this offer simply to appease market wishes for asset sales. There are other similar examples.

The second point is that last year was a very low point in Fletcher Building's earnings cycle and thus a poor earnings base from which to sell businesses at suitable prices. There are a number of businesses that should be divested and will be in due course, but these have recently shown a marked improvement in earnings. If, as expected, the improved earnings are sustainable, then the Company should quite reasonably lift its expectations as to a suitable consideration for divestment. Whilst it will take time to establish a realistic earnings improvement record, the improved earnings and higher divestment proceeds offer potentially stronger shareholder returns. So in summary, the realignment of the business portfolio will continue, but with patience and good commercial commonsense, to ensure the best outcomes for our employees in these businesses and in terms of value for our shareholders.

As to the growth initiatives, there are two aspects. Firstly, there are growth initiatives being pursued with vigour within our existing business units, whether this is in pursuit of value added product opportunities or relaunching new product ranges. All our businesses are committed to continually developing their capabilities for repositioning their products and business through identification of new market opportunities. Ralph Waters will comment further on some of these initiatives in his address. The second category of growth opportunities are those arising from acquisition or merger. Whilst we will remain vigilant for these opportunities, operational improvement of existing businesses remains the priority. Moreover, the uncertainties that all western economies presently face will necessitate an added degree of caution on any growth investments. If appropriate opportunities arise that pass the stringent and cautionary criteria against which they will be assessed, the board will give them serious consideration. The tests we will apply will include a requirement to generate, over the economic cycle, returns that better the Company's cost of capital for the investment.

Results

I will now summarise the results of Fletcher Building since 24 March, and also explain what the results would have been for the 12 months to June if the periods prior to and since separation were simply added together.

First, the initial period of Fletcher Building's trading. From 24 March to 30 June, sales were $696 million. Net earnings were $22 million before unusual items and $19 million after unusual items. There was no equivalent period in the prior year to compare this to.

For the 12 months to June, sales were $2.3 billion and earnings before unusual items were $34 million. After the write-off of unusable tax losses, a writedown of some assets and the costs of separation, the loss after unusual items was $272 million.

The write-offs were significant and they have reduced the net asset backing of each Fletcher Building share; but they were, in the main, non-cash costs. It is important to remember that, in a year when our reported net earnings were a $272 million loss, the company had a positive cash flow of $251 million. Meanwhile, these write-offs have put Fletcher Building in a sound position going forward, with all major contractual disputes now settled and appropriate asset carrying values in place.

Clearly, the period since separation has seen much stronger trading and profitability. The $22 million net profit before unusual items for the final period of just over three months was almost two-thirds of the $34 million total for the full year. Cash flow was also strong during this initial trading period, being $159 million since 24 March out of $251 million for the full 12 months. This has enabled us to reduce net debt from $485 million in June 2000 to $274 million in June 2001.

PART 2

Recent Trading and Outlook

Thank you Ralph for those comments. I would now like to provide some update on current trading results.

I am pleased to be able to inform you that to the end of September, one quarter of the way through the year, Fletcher Building in total has traded in line with budget. Nearly all our businesses have traded better than for the same period last year.

While there is still a long way to go before reaching acceptable returns, Upstream Steel and South America are among the biggest improvers . Construction, Concrete and Distribution are trading ahead of budget. There is a shortfall to budget in Building Products, arising largely from the impact of power prices across that group in July and August, but in total Fletcher Building is well ahead of last year.

The unfortunate international circumstances make long-range predictions difficult. It is impossible to know what lies ahead, but there is a high likelihood that USA, Japan and Europe will contemporaneously have little or possibly negative growth. If this occurs, it will in due course affect New Zealand's economy; however, Fletcher Building is a largely domestic business with little reliance on exports to these economies, and the company would be a beneficiary of any increased government spending on infrastructure should the local economy slow. We also have a substantial backlog of construction work that does pull through a number of our other products -- concrete and steel particularly. Thus your company has little exposure to international demand and should be reasonably placed in the event of any near-term economic slowing.

With only two months to go to the half-year, we are confident that the result will be substantially ahead of last year's half-year result and will show good progress along the path of operational improvement, towards where we aspire to be.

In almost all of our businesses, the improved performance that became apparent in the first three months of trading was maintained through the first quarter of this year.

Based on unaudited management accounts for the first quarter, earnings before interest and tax (EBIT) was $35.9 million, up $15 million or 73% on the same period last year.