FletcherBuilding

2003 Annual Meeting of Shareholders

2.00pm Tuesday 11 November 2003
Eden Park Function Centre, Mt Eden

Address by:

Ralph Waters
Chief Executive Officer & Managing Director
Fletcher Building Limited

FLETCHER BUILDING LIMITED
ANNUAL SHAREHOLDERS' MEETING 2003

SPEECH NOTES FOR MR RALPH WATERS
CHIEF EXECUTIVE OFFICER

Thank you Mr Chairman, and good afternoon ladies and gentlemen.

Before commenting on divisional performance, let me first remind you of what Fletcher Building now looks like in terms of businesses and organisational structure. There are many businesses and brands, and there has been a good deal of corporate activity, so a recap is probably worthwhile.

I will start from this point last year and then show how and where Laminex and Tasman fit in. At this time last year, we had four divisions - namely Construction, Concrete, Building Products and Distribution.

The Construction division still comprises Commercial Building, Engineering, South Pacific and Residential.

In the Concrete division there were Golden Bay Cement, Winstone Aggregates, Firth ready mixed concrete and Humes and Stresscrete concrete products. The South American businesses, in Bolivia and Peru, were also in this division, as was our investment in India. Since then the Bolivian and Indian investments have been sold.

The Distribution division included PlaceMakers, Building Depot and Hire A Hubby, but following the sale of the Building Depot and Hire A Hubby in September this year, the division is now solely the PlaceMakers network of stores.

The Building Products division had Upstream Steel (which includes scrap metal and steel rod, bar and wire manufacturing), Downstream Steel (which included Fletcher Reinforcing, Dimond roofing and structural products, EasySteel, a general steel distributor, Pacific Coilcoaters and CSP Galvanising), Winstone Wallboards (makers of GIB products), Fletcher Aluminium, Fletcher Wood Panels and Scott Panel & Hardware. Since July 2003, Fletcher Wood Panels and Scott Panel & Hardware have became part of the Laminates and Panels division.

The recently-acquired Tasman Building Products is now part of the Building Products division, and includes fibreglass insulation businesses in Australia and New Zealand, metal roofing tiles in New Zealand and California, access flooring systems in Australia and stainless steel sink manufacturing in Australia.

The Laminates and Panels division was formed from the Laminex acquisition and Fletcher Building's complementary Wood Panels and Scott Panel &

Hardware businesses. This is now a $1 billion revenue Australasian business.

Restating the 2003 annual turnover of each division after adjusting for these transfers to the Laminates and Panels division and the acquisition of Tasman Building Products and Laminex on a full year basis, the resulting divisional position is shown on the slide. Why this combination of businesses?

This next slide depicts Fletcher Building as a whole and helps explain that. We are primarily a building products and building materials manufacturer that controls the greater part of the distribution of those products. It is a highly vertically integrated business, and that is partly why our returns on investment are so high.

Against that background... turning now to the results of the divisions for the last year.

Construction had a solid year in 2003, largely completing two of its major projects - Manukau Waste Water and Auckland Hospital - while making great progress on the Grafton Gully Freeway and associated work on the main Auckland motorway. There was an exceptional performance from the residential business, where we built and sold more than 500 homes with excellent margins, and we continue to have negligible warranty issues on our homes. Operating earnings for the Construction division were $34 million, up 13% from $30 million in 2002. There is as yet no sign of any downturn in the residential construction sector and with good infrastructure contracts such as Auckland's Central Motorway Junction being recently obtained, the division is well placed to produce another good year.

Concrete had good profit improvements in every business unit. Operating earnings were up 38% to $83 million, from $60 million in 2002. Golden Bay Cement and Firth produced record volumes. Winstone Aggregates' Hunua quarry, which replaced the depleted Mt Wellington quarry, is now performing well and that underwrote the Aggregates improvement. Humes and Stresscrete both had big improvements on the prior year. A capital expenditure programme is under way to increase capacity at Golden Bay Cement's plant in Whangarei, necessary to meet the current and projected higher levels of demand.

Building Products, which included Fletcher Wood Panels and Scott Panel and Hardware in the 2003 year, lifted earnings 32% to $112 million, from $85 million in 2002. There were exceptional performances from Winstone Wallboards and Pacific Coilcoaters, but all business units other than steel making and wood panels had good improvements on the prior year. Steel and Wood Panels were affected by power pricing and the appreciating local currency, but have returned to acceptable profitability since the power pricing returned to normal levels.

In the 2003 year the Laminates and Panel division is simply the Laminex result, which was attributable to Fletcher Building for just over seven months and contributed $44 million operating earnings. Laminex's full year result was above the $95 million before interest, tax, depreciation and amortisation, or EBITDA, which was the basis of the purchase price. There was, you may recall from last year's meeting, an "earn-out" formula whereby Fletcher Building would pay the vendor an additional sum, up to a maximum of $20 million, based on the earnings above $95 million for the full year. On 31 October we paid a further 16 million Australian dollars to meet that obligation, resulting in a total acquisition cost of 685 million Australian dollars.

As the Chairman has already mentioned, the synergy benefits being attained from the merging of the Laminex and Fletcher Building panel businesses are most encouraging and are well exceeding our pre-acquisition expectations. We expect this focus on rationalisation of the existing businesses, including distribution facilities, to continue in 2004.

Distribution enjoyed a very favourable market and had an excellent result. The consolidated operating earnings were $55 million, up from $34 million in 2002, and I might add up from $18 million in 2001. We are unique in the industry with our joint venture model for most PlaceMakers stores, whereby the operator has a major equity investment in the store. Building Depot and Hire A Hubby were wholly owned businesses that were not key outlets for Fletcher Building products and were not trade focused as is PlaceMakers, and that is why they were sold.

During the year we invested $88 million on new plant and equipment. There is, as I have already noted, a major upgrade of the cement plant in Whangarei under way, which over the next four years will involve more than $50 million of investment. This will improve capacity and efficiency, and lower CO_2 production, as will be required to get suitable outcomes from the Kyoto Protocol requirements legislated during the year.   Winstone Wallboards had a $5 million plant improvement and, as normal, we spent many millions on a range of investments such as maintaining our large fleet of trucks in Firth and Winstone Aggregates, new equipment including a new tower crane for construction, and maintaining or improving the diverse information technology network. All capital expenditure over $500,000 is subject to independent internal peer review and many savings and/or improvements flow from this process.

If there are keys to our success over the past two years, the most important is a capable management and support group, with significant operational autonomy, yet with real accountability. Fletcher Building has a clarity of strategic direction, which we have espoused on previous occasions. It is to reach and maintain high performance in building materials manufacturing with strong channels to market for those products. Maintaining high financial performance is more difficult if the company remains captive to the New Zealand business cycle. Thus we have implemented further growth and diversification of earnings in Australasian markets, and will continue to do so when opportunities arise, so achieving stronger across-the-cycle earnings. This clear statement of strategic intent is an important guide for our staff as well as a comfort to all of our investors. We remain focussed on ensuring greater reliability of earnings through the cycle than was the case in the past, and on availing ourselves of more value adding growth opportunities.