FletcherBuilding

Annual Meeting of Shareholders 2004

2.00pm Tuesday 9 November
Rangitoto Room
Sheraton Auckland Hotel & Towers
83 Symonds St
Auckland
New Zealand

Chairman's Address

Good afternoon and welcome to the fourth annual shareholders' meeting of Fletcher Building Limited.

Financial Results

Fletcher Building again produced a record result, with net earnings up 43 percent to $240 million. All the long-standing divisions of the company increased their earnings for the third successive year, and there were strong contributions from the recently-acquired Laminex and Tasman operations.

With the dividend increased from 19 to 25 cents per share, accompanied by a substantial increase in the share price, the total shareholder return for the year was 33 percent. This brought the total return from the company's establishment in March 2001 to 30 June 2004 to 135 percent.

The strong performance of our shares in the market has continued into the current year. At yesterday's opening price and including the 14 cent dividend, there has been a 27 percent appreciation since balance date.

Strategic Direction

I think it's appropriate to reflect at this point on the company's development over the past few years, and on the way it is now positioned to go forward.

Fletcher Building has been reshaped to a very significant extent since it listed on the stock exchange as an independent company in 2001. It was then a relatively small organisation in comparison with some Australian building industry competitors, it had limited growth horizons, and it was more or less hostage to the swings in the New Zealand economic cycle.

The company is now considerably larger – by more than 70 percent on the basis of annual revenue. It competes successfully in a much wider arena, and it is inherently robust so that cyclical economic changes should no longer overwhelm financial performance.

In the simplest terms, this transformation has been achieved by a fundamental improvement in the internal performance of the company.

Performance

There have been two consistent planks to our strategy in this area – to improve performance in the near term and to shape the company in such a way that it is much less exposed to adverse economic conditions.

While acquisitions have had an earnings impact, our original operations have also lifted their earnings significantly through a combination of cost reductions, margin improvements, service improvements and increases in market share.

Even without the acquisitions, our operating earnings would have improved by about 270 percent since 2001. Our management team has done an outstanding job in this regard. Their efforts have been assisted by economic growth, but are no less creditable for that.

The second aspect of performance is reliability – the ability to perform well relative to movements in the economic cycle and to better absorb the surprises that occur from time to time. I believe we have also made excellent progress in this area.

The internal improvements have made our businesses more efficient and our people more motivated. They have lifted the bar permanently in terms of future performance expectations.

Investment

Both the Laminex and Tasman Building Products acquisitions have been quickly and successfully integrated with the existing operations of the company, adding synergy benefits over and above their inherent performance.

The acquisitions have broadened our base to the extent that on an annualised basis approximately 25 percent of our revenue is now derived from the Australian market, compared with 10 percent a couple of years ago. This increases the range of opportunities open to the company. Meanwhile, it reduces significantly our dependence on the smaller and traditionally more volatile New Zealand economy, and also our reliance on specific industry sectors.

Lastly, the acquisitions have had an important side benefit in the form of a broader ownership base. The proportion of our equity held by Australian investors has increased from less than 5 percent when the company listed in 2001 to more than 30 percent today. This has been a critical factor in bringing liquidity to our stock, driving the share price to its current level and creating the returns that shareholders have enjoyed in recent times.

These transactions have demonstrated Fletcher Building's credentials in identifying opportunities and its ability to integrate newly-acquired businesses successfully.

We are also continuing to invest in the existing businesses of the company, to unlock capacity constraints and/or maintain their competitive edge. Perhaps the highest-profile project is the $70 million upgrade of the Golden Bay Cement plant. Other key investments include the purchase of residential development land in Auckland and Queenstown, and the ongoing refurbishment programme around the PlaceMakers distribution network, where $44 million has been spent on new or upgraded stores by ourselves or our landlords.

Your annual report contains many other examples of internal investment. As noted there, we expect to spend over $100 million on improving our existing businesses, although the actual spend will be spread over the next few years.

We do, of course, continue to evaluate new opportunities. As a result of the strong cash generation over the past three years, the company is financially well positioned to make investments – whether they be internal or external – where there is a compelling proposition for value creation.

I do think the investments made in recent years – along with the internal performance improvements – have produced a company that will perform more strongly and more reliably into the future. Doubtless we will be provided at some point with an operating environment that tests this proposition, and you will be able to form your own judgement.

Now just a few comments on other priorities of the board.

Governance

As I have noted on previous occasions, the company operates to a governance framework that reflects a high level of commitment to our legal and ethical obligations.

The framework has been developed progressively over the past few years in line with the focus applied to governance issues by regulators and leading corporates internationally.

A natural reflection of good governance is a commitment to the sustainability of our business. We will comment on this from a financial perspective at some length, but I also want to acknowledge that we are fully committed to meeting legitimate community expectations in other areas.

Of particular interest are our relationships with employees and the communities in which we operate, and the impact our businesses have on the physical environment. We put significant effort into all these areas – and particularly into health and safety practices, where we have involved a leading international occupational safety adviser to help us make further improvements.

It is gratifying to note that our management of environmental issues has been recognised by a number of external authorities over the past year. In the Concrete Division, Winstone Aggregates won a leading environmental award for the quarrying industry. Two operating sites in the Laminates & Panels division achieved ISO certification, and the other major sites in the division are working towards it. The Construction Division's Engineering unit also achieved ISO certification, and environmental performance awards were received in respect of two major projects – the Mangere oxidation ponds and the Central Auckland Motorway Upgrade. In Building Products, Pink Batts received the endorsement of Environmental Choice New Zealand early in the current year after a review of manufacturing processes and related environmental issues.

Trading Update and Outlook

At the time of our full year announcement in August, directors expressed the view that the residential construction market in New Zealand and Australia would slow during the 2005 financial year. The further slowing in immigration in New Zealand, and in property sales and prices in both New Zealand and Australia, are indicators that further support that view. While the slowing has not yet been evident in trading, we expect it will be by the second half of this financial year.

However, as mentioned earlier the company is now more broadly based, and its dependence on residential construction and the New Zealand economy are much reduced. Also, there are strong markets in non-residential and infrastructure construction in both New Zealand and Australia – particularly in New Zealand, where we have major positions in cement, steel and construction. Thus we said in August, and again in our annual report, that we expected to match last year's record result in 2005.

After four months of trading, the company is comfortably ahead of last year – to the extent that, even after assuming there will be a second half slowing, directors now expect the full year earnings before interest and taxation to be in the range of $475 million to $500 million compared to $460 million last year.

On that pleasing note I conclude my comments and now invite you to raise any matters about the activities of the company on which you would like to hear our views.

Roderick Deane