FletcherBuilding

Annual Meeting of Shareholders 2004

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

Chief Executive Officer's Address

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

Business Structure

Before commenting on the performance of the company's different businesses, it is useful to recap very briefly on the composition of Fletcher Building. We are essentially a building materials and building products manufacturer with a high level of control over the distribution of our products. Earning profits right through the value chain explains our excellent returns.

Our manufacturing divisions – Concrete, Building Products and Laminates & Panels – produce a wide range of building materials and products under market-leading brands. In many of these businesses, we both manufacture and handle all our own distribution.

In New Zealand, the PlaceMakers chain is also a distributor for many of our products – and those of other suppliers – in a market that is too small for specialised distributors in some of the areas where they exist overseas. Construction provides a second distribution channel. Both create substantial demand for our products, and both earn very good returns in their own right.

In Australia, our largest business Laminex, has a fully-owned national distribution network that provides it with an important presence close to its customers. Fifty four of the Laminex distribution points are specialised service centres that incorporate showroom facilities and provide expert assistance to customers. There are also some third-party distribution arrangements.

The key brands of the manufacturing divisions are set out on the slide, and of course Fletcher Construction, Fletcher Residential and PlaceMakers are all equally important brands for us.

Divisional Reviews

As the chairman has already stated, we achieved very strong growth in revenue and earnings in the 2004 year, with all divisions of the company improving over their prior year.

Operating earnings, that is earnings before interest and tax, were $460 million – 39 percent higher than for the previous year. The largest increases were achieved by Laminates & Panels and Building Products, aided in each case by the impact of acquisitions.

Taking the divisions in turn…

The Concrete division increased operating earnings by 16 percent, with all the New Zealand operations improving on the strong previous year. Most product prices increased during the year, and there was a keen focus on costs which led to margin improvement in all business units other than Golden Bay Cement.

Looking at the businesses that make up the Concrete division, the cement business had a record level of domestic sales, but its earnings growth was limited by a couple of factors – higher distribution costs and the requirement to import high volumes of clinker as demand exceeded our ability to supply. Both of these issues should be of less significance in the current year. An important milestone was the commissioning of the first stage of Golden Bay's plant upgrade which disrupted production, but has increased the long term capacity and efficiency of the plant.

The Firth concrete products business lifted earnings by 28 percent, with record sales in most of its product groups and continued margin growth. Stresscrete's earnings also improved substantially, largely through productivity improvements following the consolidation of two Auckland factories to the Papakura site in the prior year. Pricing and margin improvements led to strong performances by Winstone Aggregates and Humes Pipeline Systems.

The Building Products division lifted earnings by 61 percent, aided by the $31 million contribution from Tasman Building Products in the last nine months of the year. Tasman's performance featured strong growth in demand for insulation in Australia, and for metal roofing tiles in its North American and Asian markets. Its sinkware operations also performed strongly. Its New Zealand insulation business had an outstanding year.

Winstone Wallboards and Fletcher Aluminium had the benefit of strong domestic demand, and in Aluminium's case there were also gains from improvements in manufacturing productivity.

The upstream steel mill and wire operations improved their performance, despite a spike in power prices at the start of the year and a surge in scrap metal prices from the middle of the year. All the downstream steel businesses also improved their earnings.

The Laminates & Panels division's earnings were 76 percent higher, reflecting a full year's contribution from Laminex, which was acquired part-way through the previous year. On an annualised basis, earnings were up by 6.5 percent.

Sales in Australia and New Zealand were up by 4 percent and 10 percent respectively, in line with strong activity in the housing and commercial markets. The value of export sales from the Australian operations was down by 22 percent due to a significant increase in the value of the Australian dollar, which rendered exports less competitive.

The integration of the Australian and New Zealand businesses reduced overhead costs and resulted in other synergy benefits. Costs were also reduced by the consolidation of three warehouses in Sydney into a new purpose-built 28,000 square metre distribution centre, and similarly two warehouses into one centre in Adelaide.

This followed a similar move in Melbourne in the previous year. Construction has just been completed on a new distribution centre in Brisbane, which completes the warehouse consolidation programme.

The Construction division earnings were up by 24 percent.

The Building operations lifted earnings by 33 percent despite turning some work away because of resource constraints. Earnings from Engineering were steady. The South Pacific operations performed well, although constrained by skill shortages in Fiji and low demand in Papua New Guinea.

The standout performance from this division was from Fletcher Residential, which achieved a record level of operating earnings despite lower housing unit sales.

Operational highlights were the completion of the Auckland Hospital and Grafton Gully Motorway projects, and the start of the Central Motorway Junction project in a joint venture. We were also named as preferred contractor to build the University of Auckland Business School. The construction backlog – our reservoir of future work – ended the year at a record $470 million. Since then there has been success on the Pohokura gas treatment plant, an $88 million contract and the division has been named as preferred contractor on another $70 million roading contract.

The Distribution division, which following the sale of The Building Depot and Hire-a-Hubby, is now essentially the PlaceMakers chain, increased earnings by 24 percent on what was already a very strong result in the previous year. Our market share in core products increased slightly, and margins increased with an improvement in purchasing arrangements and a reduction in administration costs.

The other feature of the year for Distribution was the substantial store upgrading programme. We established a new PlaceMakers store in New Lynn and acquired the Builders Hardware Company in Christchurch. We also unveiled the first stage of an upgrade in Riccarton and started work on new locations in Queenstown and Mount Wellington. Riccarton's upgraded PlaceMakers store was opened on 15 October, and new stores at Mt Wellington and Queenstown will open on 5 December.

Performance

The Chairman mentioned shareholder returns a little earlier, but it is worth showing some of the other measures we use within the Board and management to assess performance.

The return on funds employed increased from 24.4 to 24.7 percent, which was a pleasing result, especially in view of the increase in funds arising from the Laminex and Tasman acquisitions at market value. This return was well above the pre-tax cost of capital, the relevant benchmark for which is about 12 percent.

We also use two other methods for evaluating our performance – Economic Value Added, or EVA, and Return on Equity. Economic Value Added is the amount of after-tax profit over and above that required to match the after-tax cost of capital. We generated EVA of $139 million, compared with $65 million and $46 million in the two previous years. The Return on Equity was 24.3 percent, following 23 percent and 16.9 percent in the previous years.

So by any of the standard measures, our performance has improved consistently over the past few years. It now compares more than favourably with our international peers in the building industry, and with other companies in the New Zealand market.

The performance gain over the past three years has been assisted by an economic tailwind, but this has obscured the scale of the underlying improvement.

In turn, the underlying improvement reflects very well on the management group, which after a period of some change in 2001, is now well established and has a wealth of experience in the building industry. I believe the company will continue to be well served by this group for some time into the future.

The Chairman will now give an update on recent trading and the outlook.

Thank you.

Ralph Waters