Fletcher Building

Annual Meeting of Shareholders 2005

2.00pm Tuesday 8 November
Rangitoto Room
Langham Hotel
83 Symonds St
Auckland
New Zealand

CEO's Address

FLETCHER BUILDING LIMITED

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Good afternoon ladies and gentlemen.

The 2005 year was another in which the company performed well, taking advantage of the prevailing market conditions, while also taking further steps to ensure a bigger and more resilient earnings outlook for the future. The Chairman has already commented on the Amatek acquisition and I will not further expand on that, other than to say that for the four months of our ownership in the 2005 year, earnings exceeded our acquisition expectations and the businesses have been seamlessly incorporated into Fletcher Building's operations.

Results Overview

A few metrics from our full year result are worth noting. Revenue of $4.7 billion was up 18 percent on the previous year, whereas operating earnings – that is, earnings before interest and tax − were up 30 percent, and earnings after tax up 38 percent. Earnings per share were up 32 percent. In other words, the earnings increases were not driven primarily by revenue, but by improved performance. In addition to the $588 million spent acquiring Amatek, the company invested a further $204 million on existing operations. More than half of this was on new growth and productivity initiatives.

Operating earnings were $596 million, up from $460 million in the previous year. All divisions improved their earnings and I will address each of these now briefly.

Building Products

Building Products increased operating earnings by 35 percent to $222 million. It has grown earnings at a compound growth rate of 45 percent from the $51 million earned in 2001. The year's results included a full year's contribution from the Tasman companies, owned only for nine months of the previous year, and four months of Insulation Solutions and Stramit. Without the incremental benefit of these acquisitions, the earnings of the original building products businesses were still well ahead of the previous year. This was aided in particular by the rapid escalation in steel prices that occurred around the world in 2004. All of our steel related businesses benefited, and there were some one-time benefits as inventory on hand become more valuable. EasySteel, our general steel distributor, was a particular stand-out in earnings improvement. In 2005, steel and scrap metal prices have either stabilised or reduced.

Plasterboard maintained its 94 percent New Zealand market share and continues to be one of our most successful businesses. It has a reputation for excellence in customer service and at the recent Hardware Industry Awards, Winstone Wallboards was again awarded first place by its customers in the "Best Supplier – Building Products Award".

The metal roofing tile business had an excellent year, particularly in the USA following strong demand from storm-damaged areas. We acquired a metal roof tile plant in Malaysia to lift overall capacity and to have a manufacturing facility closer to our largest export markets in Asia.

Fibreglass insulation also performed extremely well, particularly in New Zealand. We are now well advanced in gaining the synergies available from having insulation plants in both Sydney – our original plant – and Melbourne – being the plant recently acquired. The two businesses are being managed as a single business, with freight savings becoming available as soon as we are able to make both insulation brands from each factory.

Fletcher Aluminium had a solid year, and Oliveri Sinks in Australia commendably countered the softer demand in that market with strong growth in exports.

Infrastructure

Infrastructure's earnings were $196 million, up 44 percent from the previous year while revenue was up only 24 percent. The strong improvement in margins was achieved through the scale benefits of higher volumes, productivity improvements and stronger pricing in aggregates and concrete pipes.

Golden Bay Cement shipped a record volume of cement for the sixth successive year. The bulk of our cement is carried by our ship the M.V. Golden Bay. To accommodate the increasing volumes, a barge was added to our shipping capacity during the year, and this will further reduce the more costly road transport.

Winstone Aggregates improved earnings by 60 percent, benefiting from higher demand, stronger pricing and increased plant capacity following earlier capital works. The Hunua quarry is now the largest in New Zealand, producing more than two million tonnes of aggregates per year.

Firth again improved earnings, despite increases in raw materials and transport costs. Volume increases in readymix concrete and concrete products, complemented by good margin management, were the keys to this strong result. Humes Pipelines enjoyed very strong demand for concrete pipes, and prices improved for the first time in some years, so that this combination delivered an outstanding result. Stresscrete improved considerably over the previous year and the business still has a large backlog of commercial and infrastructure work.

As already mentioned, the two recently acquired Australian businesses, Rocla Pipeline Systems and Rocla Quarry Products, both performed well in the first four months of ownership.

Construction operations increased revenue by 19 percent, but earnings were flat because two large engineering projects started late in the year and did not attain an appropriate level of completion to allow any profit recognition. We have a conservative policy on construction projects, not recognising any profit until a project is 20 percent complete, by which time we are better placed to know whether we are meeting or bettering our planned margin. Of course, at the end of projects there is a residual profit to be recognised on next to no turnover, and this conservative method of profit recognition can depress or elevate margins from year to year.

As you leave here today, you may well pass the Central Motorway Junction, the Northern Busway, the Auckland Business School or even the Greenhithe Bridge, all of which we are presently constructing. Further afield we are well advanced on the Pohukura gas plant. Our current backlog is a record high of $780 million and there remains no shortage of work to bid for.

Fletcher Residential had another good year despite fewer homes being built due to reduced land availability in its primary market of Auckland. It achieved higher margins, however, as land and house packages continued to escalate in price. In early 2006 we should be building homes on the Lunn Avenue quarry, and over the next five or six years we expect to have the right to build 900 homes there.

Laminates and Panels

Laminates and Panels' revenue was down 3 percent to $960 million. The major part of this business is in Australia, and the higher New Zealand/Australian dollar cross rate reduced the revenue and earnings reported in New Zealand currency. As well as that, the Australian market demand was weaker. It was thus very pleasing to achieve an 8 percent rise in operating earnings, to $103 million. This level of earnings growth would not normally be expected from a capital intensive business experiencing lower volume and margin pressures in a softer market.

Business improvement has been a key focus of this division. Cost savings were achieved in several areas – the integration of the Australian and New Zealand operations, which reduced overhead staffing by more than 40 people; a 20 percent capacity increase at the Kumeu particle board plant in New Zealand; and the completion of the warehouse and distribution upgrades in Australia. Brisbane, Sydney and Melbourne now each operate from one large purpose built office-warehouse complex in each city. Adelaide and Perth have already implemented warehouse consolidations. At just under 30,000 square metres, the Sydney and Melbourne distribution centres are significant and highly efficient complexes.

Exports remain an important element in maintaining volumes, but margins are low when the New Zealand and Australian dollars are at their present high levels against other currencies. On the other hand, if as expected the local currencies weaken in due course, there will be a valuable lift in export earnings.

Distribution

Distribution had another extraordinarily strong result. Revenue through the

PlaceMakers chain was up 7 percent to $920 million, and operating earnings were up 11 percent to $81 million from an already very strong $73 million in the previous year. Operating earnings growth in the past four years has been from $18 million to $81 million. This is a 46 percent compound growth rate.

While there was a slowing in new housing approvals during the year, there has also been a considerable delay between approval and building completion. This means the effect on PlaceMakers of reduced approvals is far from immediate, although it is now being felt, albeit modestly. The value of residential work being completed fell by a smaller proportion than the number of approvals, due to the increasing average value of approvals. We also believe there is a larger spend on rectification of homes with leaks and timber issues than is generally recognised. Much of this repair work is not in the normal official monthly housing data.

Anyone who turns on a television or radio would know how much competition there is in the hardware market. PlaceMakers has continued with a major store upgrade programme to ensure it maintains its leading position, and the improved level of business from these new or upgraded stores has been encouraging. At the Hardware Industry Awards, the PlaceMakers Queenstown store won the award for best new store under 4,000 square metres, while PlaceMakers Riccarton store won the award for best new large store.

Investing for Growth

Whilst most external focus is usually on the most recent trading performance, sustainable profit growth requires a long term forward vision. Thus we place significant emphasis on ensuring all businesses have a well considered investment programme to maintain plant in good order, improve productivity or lift capacity. The $70 million invested over the past three years at Golden Bay Cement's Portland facility is a relevant example. When completed the investment will have lifted annual production capacity from 600,000 tonnes to 850,000 tonnes, improved the thermal efficiency of the plant, and reduced carbon dioxide emissions sufficient to ensure a Negotiated Greenhouse Agreement is granted by the Government to abate any carbon taxes that may be imposed. It will also improve environmental performance, with the upgrade of the exhaust filtration systems to significantly improve the quality of gas emissions. Our early commitment to this investment programme has been well rewarded by the strong volume growth experienced in the past few years, and by being well positioned to satisfy increasing environmental standards.

There is a large number of investments occurring right across the company, and these are the key building blocks of our growth. After the cement upgrade, our next most significant investment is a $40 million improvement and capacity expansion to our Dardanup particle board plant in Western Australia. While acquisitions catch the headlines, good quality investments in our existing operations will continue to provide the best returns and these opportunities remain within our control. We will always be happy to report prudent value-creating investment at a level higher than our annual depreciation charge to earnings.

Sustaining Performance

Fletcher Building has, in the past four years become a genuine New Zealand blue chip company. From being outside the top 15 companies by market capitalisation in 2001 when the company first traded independently, its market capitalisation has grown from $770 million to $3.6 billion, and it is now the third largest by market capitalisation. This year, we will have revenue approaching $6 billion and employ more than 14,500 people.

While we have had the benefit of very favourable market conditions, the company's growth in Australia and the more than four-fold improvement in operating earnings of the original businesses are the result of much more than strong markets. There are three key factors. Firstly, we have excellent market positions, the ability and experience to maintain these, and to acquire further businesses that also have excellent market positions. Secondly, we have a breadth and depth of quality personnel that is the envy of many. Good outcomes are achieved through these people working together. Thirdly, we have excellent systems, processes and governance in place, including this board of directors. Collectively, these limit the risk of bad decisions. Our decision making processes have certainly contributed to our success over these past four years.

These high standards and our core values will continue to stand the test of time, and of markets that will ebb and flow in demand. Thus I remain confident there is still ample scope for continued earnings improvement from Fletcher Building in the years to come.

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

Thank you.