

Distribution

The division distributes building materials and related products throughout New Zealand under the PlaceMakers brand. It is the market leader in its core trade segments and provides an important distribution channel for Fletcher Building products. There are 60 stores, most of which are operated in partnership with local owners.

Performance

Sales growth slowed to 2 percent, reflecting a general slowdown in the New Zealand market, particularly in the retail sector and in the number of residential building consents.

Growth was supported by the branch development programme, but the associated development costs, along with rising costs for energy and labour, increased operational expenses. Margins were subject to pressure resulting from ongoing competition and industry reaction to the market decline. As a result, operating earnings were down by 9 percent.

The ratio of working capital to sales improved, with stock levels falling despite increased shelf capacity in the new stores.

Capital expenditure for the year was \$32 million, mainly on the store upgrade programme and a new information system. The investment in information systems will allow the replacement of some ageing hardware and develop new technologies to improve business processes for customers.

The marketing programme continued to emphasise the relationship with trade customers while building retail sales via a monthly mass media programme. The LIFT trade customer loyalty programme retained its momentum, with more than 450 builders participating in two building conferences.

Frame and truss manufacturing is an essential feature of the division's offering, provided mostly through in-house manufacturing. There has been a concerted focus on improving returns from these plants through measurement and benchmarking of costs, productivity and volumes.

Sales	\$1,083 million
Operating earnings	\$73 million
Funds	\$185 million
Employees	2,915
Key Brand	PlaceMakers

Christchurch frame and truss operation

During the year it was decided to accelerate the development and implementation of the national manufacturing strategy, which seeks to leverage the scale, and improve the operational effectiveness, of the national network of 22 frame and truss operations.

PRE-CUTTING THE STUDS, PLATES, DWANGS AND LINTELS READY FOR ASSEMBLY AT THE WALL FRAMING MACHINES. THE NEW STATE-OF-THE-ART MACHINERY MEANS MOST CUTTING IS 'HANDS FREE'



The regional rationalisation will facilitate the implementation of best practice plant and processes to improve safety and reduce waste and cost.

The first major milestone in this strategy was the successful implementation of the new Christchurch frame and truss operation. The facility, which boasts a 3,250 square metre purpose built factory as well as a 300 square metre detailing office block, opened on time and within budget in January 2008. This allowed the closure of two older and smaller regional facilities. The new facility features state-of-the-art cutting capabilities including a linear saw capable of cutting over 2,000 components a day and advanced pressing equipment capable



of producing trusses of up to 18 metres in length, all of which will allow for safer, more efficient and higher quality production. Despite being operational for only six months by the end of the year, the site is already achieving its targeted performance objectives and service levels, and is the model upon which any future large regional plants will be based.

Looking to the fundamentals

The following projects were completed during the year:

- relocation of the Thames branch
- the opening of a new depot facility at Ohakune
- the establishment of a new frame and truss manufacturing facility in Christchurch
- upgrades at the Huntly, Wairau Park, Dunedin and Cranford St stores

In addition, a site was purchased in Warkworth for a new depot facility and construction began for a new facility in New Plymouth.

As in the past, the branch upgrade programme provided much improved retail facilities, but continues to be focused principally on improving yard access and drive-through facilities, which are a service to the division's trade customers.

Infrastructure

The division is a vertically integrated business supplying aggregates, cement, readymix concrete and a range of concrete products in New Zealand; and concrete pipeline products and a range of aggregate sands throughout Australia. It is the largest construction contractor and residential builder in New Zealand.

Performance

Operating earnings grew for the seventh successive year despite lower demand for most construction products in New Zealand, a significant decline in the number of houses sold and ongoing weakness in the New South Wales market. The key operations all performed well given their market conditions.

Operating earnings grew by \$37 million to \$308 million, including earnings from property related activities of \$80 million from the residential business, quarry end use, and surplus asset sales, up from \$49 million in the prior year.

The concrete business increased operating earnings by \$1 million to \$189 million. Construction earnings also increased, from \$34 million to \$39 million. The property and residential operations accounted for most of the earnings improvement for the year, increasing \$31 million to \$80 million.

Operating earnings from the cement business were lower despite significant benefits flowing from the upgrade of the plant. Domestic cement volumes were 3 percent lower than for the previous year and 8 percent for the 2006 year. Export sales increased but margins were low. Completion of the plant upgrade enabled record production of clinker, avoiding the extra cost of imports for the first time in six years. Cement production was also at record levels. Prices were 4 percent above those for the previous year, but this did not fully recover increased production and distribution costs. The impact of cost increases in the new year – particularly for coal, diesel and electricity – will be substantial. A further cement price increase of \$11 per tonne has been announced, but will not be sufficient to cover cost increases.

Aggregates recorded lower operating earnings due to reduced volumes of core products, and competitive pressures that restricted the ability to pass on all cost increases. While overall sales volumes were similar to those for the previous year, the sales mix was unfavourable and weakness in the Auckland market resulted in a sharp decline in earnings in that region. Unit costs increased significantly due to the compounding impact of a high fixed cost base and significant increases in input costs.

Sales	\$1,857 million
Operating earnings	\$308 million
Funds	\$1,027 million
Employees	5,846
Key Brands	Firth Fletcher Construction Fletcher Homes Golden Bay Humes Rocla Winstone Aggregates