



CHAIRMAN'S REVIEW

This report covers a year in which the group's ability to perform to its expectations was seriously tested, and foreshadows a further demanding period to come. We can report with satisfaction on the achievements of the past year, and with confidence on our ability to meet the challenges of the near future.

Results Net profit after tax and minority interests was \$467 million, up 17 percent on the \$399 million excluding unusuals from the previous year. While reported net earnings declined slightly from \$484 million to \$467 million, the 2007 result included unusual amounts of \$85 million.

Sales, at \$7.1 billion, were up \$1.2 billion on the previous year. They included \$1.1 billion contributed by the newly-acquired Formica Corporation.

Most of our businesses performed well given the demanding economic conditions the group faced. Earnings from Formica were significantly lower than expected, reflecting the impact on its US operations of a downturn in housing and residential markets, along with significant restructuring costs.

While Formica achieved good results from its European and Asian operations, its performance overall in its first year post-acquisition was disappointing. The causes of this are clear and measures have been taken to address those factors within our control. The downturn in United States housing markets will continue to affect results in that country, but it is anticipated that overall performance will improve in the current year. Details of Formica's performance, and those of the other businesses, are contained in the divisional reviews on the following pages.

The result represents a 19 percent return on both average equity and average funds employed. Earnings per share were 93.2 cents, up from 84.0 cents excluding unusuals in the 2007 year. Total shareholder return (TSR) – the movement in share price plus pre-tax dividends – was negative 43 percent compared with positive returns of 42, 40 and 61 percent in the three previous years.

While the negative TSR was disappointing, it is worth noting that Fletcher Building was again rated the largest creator of wealth among New Zealand's publicly listed companies, in the annual survey by Boston Consulting Group. The group was found to have created \$4.8 billion of wealth for its shareholders over the five years to December 2007.

Dividend It is pleasing to be able to report that the final dividend of 24.5 cents per share is the thirteenth consecutive increase and, together with the interim dividend of 24 cents, increases the total for the year from 45 to 48.5 cents per share. This can be taken as a sign of confidence in the group's ability to maintain a solid stream of earnings over the longer term.

The final dividend will be paid on 16 October 2008 with New Zealand and Australian tax credits attached to the maximum permitted amount. Non New Zealand shareholders also benefit from the supplementary dividends attached to the imputation credits. Further details are available in the Investor Information section of the annual report.

Corporate governance Our corporate governance framework involves active participation by a largely independent board through 10 regular meetings and a number of special meetings during the year. These are supplemented by regular operational visits to our wide array of facilities and offices.

No significant changes to governance practices arose during the year. A summary of the corporate governance framework is provided in the Corporate Governance section of the annual report. For fuller review, the governance policies are reported on the group's website www.fletcherbuilding.com.

Shareholder reports This is the second year of the 'new' regime whereby listed companies may decide to use the worldwide web as the platform for reporting to shareholders. We have again opted to do so, and to supplement this approach by providing shareholders with this abbreviated annual review.

Both this document and the full annual report will be published on the website. If you also wish to receive a printed copy of the annual report you need to advise us by completing the form sent with the annual review.

People In demanding times the contribution of our people becomes both more evident and more important. The group has an active approach to managing the various aspects of this contribution, and we are confident this will continue to pay dividends.

The foremost concern is to provide safe working environments. The group has continued to improve performance in this regard, but further progress is required through initiatives in every division and business unit.

Another high priority is a structured approach to developing the leadership required to maintain and enhance the group's commercial performance. We have a strong management group and excellent employees at every level. The group has a range of programmes to ensure that our talent pool is continually grown and developed. The board has great respect and appreciation for the contribution made by all our staff, and it is my pleasure to place this firmly on record.

Directorate At the annual meeting last year, we signalled that the board would change in composition over the next couple of years. The directors who joined the board at the inception of Fletcher Building are approaching the end of their normal terms, although the board has discretion to offer a further three-year term if that is considered appropriate. Succession arrangements are in place.

The appointment of Mr John Judge in June was the first step in this plan and it is likely further appointments and retirements will occur over the next year.

Strategic agenda

The group continues to be managed for improved earnings reliability as a key factor in shareholder returns. With market conditions currently so uncertain this will involve a strong focus on cash generation, working capital and cost control, along with relatively conservative assumptions with respect to planning and investment.

This strategy aims to build on the solid foundations provided by the group's financial strength and the balance of exposures to a range of different market sectors and geographies. The acquisitions made in recent years have provided greater balance between residential and non-residential construction, between New Zealand and international markets, and between the different international markets.

Growth will remain a priority, most likely in the short-term from relatively small acquisitions and organic growth opportunities. Excluding existing capital commitments, total capital expenditure is likely to reduce to around the level of annual depreciation.

Outlook

The group faces a mix of economic and market conditions that make it difficult to predict the level of profitability for either the short or medium term. Nevertheless, we take comfort from our spread of businesses across various building materials sectors and geographic locations, and the fact that we entered the economic slowdown with a strong balance sheet.

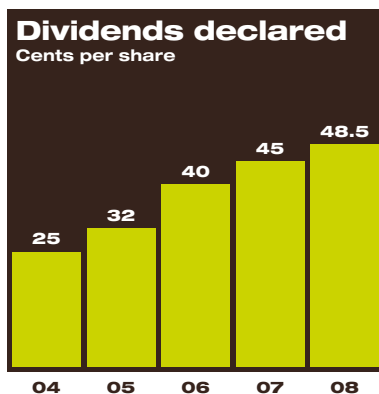
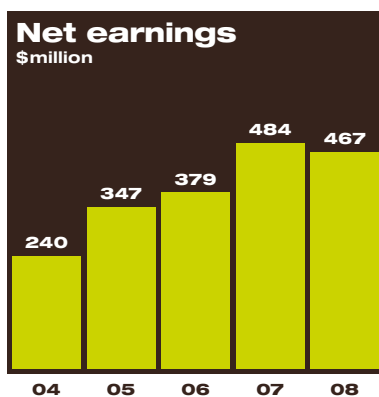
In New Zealand, the outlook is for divergent conditions between the housing market and the infrastructure and commercial construction markets. Residential activity is expected to slow throughout the year, with new housing consents forecast to decline. However, larger scale commercial building and infrastructure markets should remain at similar levels to those in 2008.

In Australia, infrastructure related markets are expected to vary markedly. The national housing market is at a cyclical low, with New South Wales in a slump offset in part by strength in Queensland and Western Australia. It is hoped that there will be a gradual recovery in New South Wales late in 2009. Growth in non-residential building is expected to slow. Engineering construction activity will continue to grow strongly in line with growth in infrastructure.

Outside Australasia, and at this stage of less significance, is the economic outlook in our other markets. In the United States, it is not expected that there will be any significant improvement in markets during the current year. Uncertainty about near-term trading conditions also exists in the group's European markets with no indication of improvement in the main markets in Spain and the United Kingdom. The outlook is somewhat better in the group's Asian markets.

In summary, we face very difficult markets in New Zealand, the United States, the United Kingdom and Spain; deteriorating markets in Australia; and softening markets in Asia. There is little doubt that we are in for a tougher year than the one just experienced.

This operating environment calls for a balance of caution and optimism in managing the group's affairs. We are managing our businesses with a focus on cashflow and to maintain financial strength. Our performance objective remains as before – to reward our shareholders by building earnings resilience for a range of economic and market cycles.



Roderick Deane
Chairman



HUMES' PIPES BEING
INSTALLED AT THE STONEFIELDS
RESIDENTIAL DEVELOPMENT
IN THE OLD LUNN AVENUE
QUARRY IN MT WELLINGTON