



CHIEF EXECUTIVE'S REVIEW

Group results

Operating earnings (earnings before interest, funding costs and tax) were \$768 million – 9 percent higher than the \$703 million recorded in the 2007 year. There were no unusual items in the latest earnings, whereas operating earnings for the previous year included net unusualls of \$5 million.

Divisional results reflected generally strong operating performance in the face of difficult conditions. Three of the five divisions – Infrastructure, Building Products and Steel – improved their performance. Results from Distribution were reduced by market conditions, and earnings from Laminates & Panels showed an increase due to the first-year contribution from Formica.

Infrastructure lifted operating earnings for the seventh year in succession – by \$37 million to \$308 million – 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 in their respective market conditions. Property activities (including residential building, quarry end use and disposal of surplus land assets) contributed operating earnings of \$80 million, compared with \$49 million in the 2007 year. The gain reflected the sales of a quarry in South Auckland and Stresscrete, the profit on which was mainly from associated land.

Property activities were reported separately for the first time in the latest year, to provide transparency on what has become an increasingly important aspect of the Infrastructure business. The division has extensive land holdings in quarry end use and residential land. Earnings from property activities are expected to increase over the next few years, although given the nature of the activities they could be relatively volatile.

Operating earnings from Distribution declined from \$80 million to \$73 million, reflecting the general slowdown in the New Zealand market and the decline in residential building consents during the second half of the year. The branch development programme assisted sales growth, but also increased operating expenses.

Building Products lifted operating earnings from \$141 million to \$148 million despite deteriorating residential markets, rising input costs and generally adverse exchange rate conditions.

Operating earnings from Steel rose by 26 percent – from \$80 million to \$101 million – reflecting very favourable prices in the second half of the year. This followed a number of initiatives to improve performance, including the exit of unprofitable businesses, restructuring to tighten management focus and acquisitions in the Australian rollforming business. There were also gains from the sale of scrap during a period where the sales value had doubled.

Laminates & Panels increased operating earnings by 8 percent to \$141 million, with a full year's contribution from Formica and a 5 percent reduction in earnings by Laminex. As noted in the divisional review, Formica was affected by the downturn in US housing and commercial markets, and by issues related to the restructure of its two manufacturing plants in the US into one site in Ohio. Formica's operations in Asia and Europe performed to expectations.

The US restructure, which had been underway when the group acquired Formica, encountered significant execution problems, with additional costs relating to scrap rates, quality and maintenance. The initial expectation was that the two plants would be merged and operating properly at July 2007. The expected savings from this process were US\$11 million, but instead additional operating costs of US\$25 million have been incurred. Good progress has since been made and there is confidence that the benefits will be achieved by the end of this financial year.

Synergies between Laminex and Formica are proceeding as planned. Sourcing of high pressure laminates (HPL) from Formica's Shanghai plant to New Zealand and Australia is in place. The Auckland HPL factory has been closed and the Melbourne factory has been downsized and restructured.

Overall, Formica's integration into the group has been successful. As the chairman has noted, a significant improvement in operational performance is expected from Formica in the current year.

Financial position

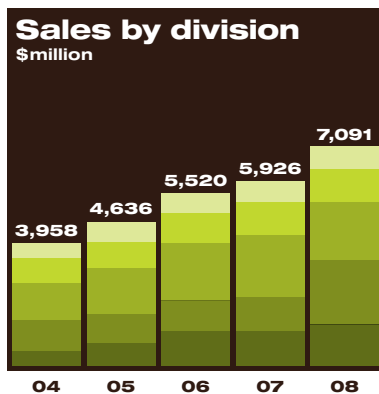
The group remains in a sound financial position, with gearing (net debt as a percentage of net debt plus equity) of 40.1 percent at 30 June 2008, and comfortably within its relevant debt covenants. This is up from 22 percent at the same time in 2007, but is slightly reduced from the 41.1 percent level after settlement of the Formica purchase in July 2007.

The group has little exposure to debt repayment in the near future, with an average debt maturity of about five years. The latest group earnings provided interest cover (the ratio of earnings before interest, tax, depreciation and amortisation to total interest paid) of 7.1 times, compared to 9.8 times at 30 June last year. The reduction was fully consistent with our expectations at the time of the Formica purchase.

Strategic agenda - a strong focus on the fundamentals

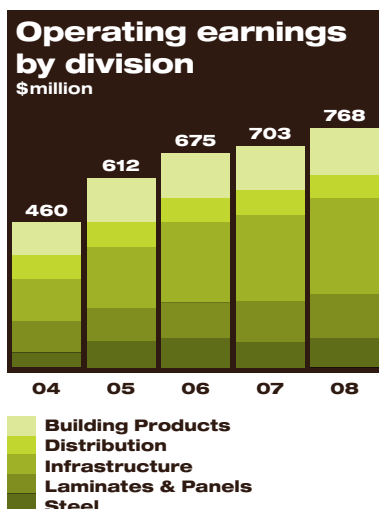
The group's strategy of building earnings reliability through geographical and sector diversity has been a key factor in maintaining performance. It now has significant operations in Asia, Australia, Europe, New Zealand and North America. It is important to note that, while the current operating environment in the US is difficult, our business in that market accounts for less than 7 percent of group revenue.

The group also has a balance of exposures between the residential, commercial and infrastructure sectors. Of particular relevance is the reduction over recent years in what was a very high level of exposure to the New Zealand residential sector. It is estimated that about 26 percent of cash earnings are derived from the New Zealand residential segment, with 35 percent from New Zealand non-residential and 39 percent from outside New Zealand. This structured diversity will continue to exert a positive influence on earnings.



Infrastructure markets in Australia and New Zealand remain strong, driven primarily by government spending programmes. In New Zealand, Fletcher Construction's backlog at 30 June 2008 was a record \$1.3 billion, and this market is expected to remain strong at least through to the 2011 Rugby World Cup in New Zealand.

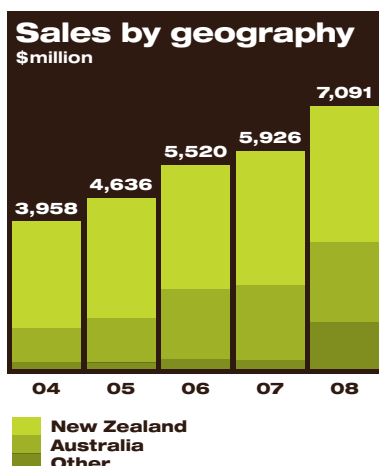
Spending in the residential and commercial sectors is more closely related to the strength of credit markets. These have been in varying states of weakness internationally, and there remains uncertainty over their future course and the impact on housing markets in particular. On the more extreme scenarios, this could produce a notable slowing in housing activity.



Given this trading environment, a renewed focus has been given to the fundamental strengths and capabilities of the group. These have served it well to this point, and will provide a platform to emerge from the current stage of the cycle with strength to perform in the long term.

These include:

- market leadership, with a reputation for delivering building materials and services of outstanding value to customers
- the ability to innovate through new products, services and concepts
- strength in manufacturing and distribution, through a network that now encompasses more than 300 locations worldwide
- financial strength, and thus the ability to invest in future growth even while current conditions are difficult
- clear commitment to sustainability across the economic, environmental and social spectrum, and clear programmes to deliver solutions
- a strong leadership team and culture, where performance is valued and rewarded



This focus on the fundamentals has manifested through a broad range of initiatives and developments captured in the divisional sections of this review.

In the financial sphere, our approach is to focus on maintaining the strength of our cash position, and ensuring that our management practices accommodate the lower trading volumes. Key responses will be to seek reductions in working capital and capital expenditure. In recent years the group has been investing at approximately twice the level of depreciation. For the near term it will take the more conservative position of reducing investment flows to about the same level as annual depreciation after excluding the carry-over of existing capital expenditure projects already under way.

This does not mean that the group will be putting aside its growth aspirations. It will continue to invest for growth, internally through plant and process improvements, and through innovation. It will continue to take opportunities for bolt-on and fill-in acquisitions as it has done in recent years. It will be less likely in the near term to undertake major acquisitions.

In the latest year \$1.4 billion was invested on growth, including the Formica acquisition, a number of small acquisitions referred to in the divisional reviews that follow, and internal investment. Priorities for the current year include:

- secure the Formica US operational improvements
- optimise cash generation in tougher markets
- take advantage of small bolt-on acquisition opportunities where good near-term benefits arise

Looking further ahead, the group will maintain a solid platform for growth in revenue and earnings. The Formica acquisition, while underperforming in the short-term, has helped to build this platform. Valuable lessons have been learned in integrating a major international business into the group – for example, through the assimilation of its high-level administrative functions into the corporate office in Auckland, and through the introduction of group management practices to the Formica operations.

Management The senior management team was reshaped significantly in the 2007 year. The team is performing well and this has been reflected in divisional and functional performance.

The only change in the team during the latest year was the departure of Frank Riddick, president and chief executive officer of Formica Corporation. Mark Adamson, who was president of Formica Europe, was appointed to succeed him.

As noted last year, the team has a strong mix of talent, experience, nationality and leadership ability which stands it in good stead for the challenges and opportunities ahead.

People The group has developed a structured approach to people management based on policies and practices to promote high levels of management capability. Key areas of focus are leadership development and succession planning; management education and development; talent identification and recruitment; and the quality and profile of the group's employment brand.

It is recognised that the quality of leadership is the most important determinant of long-term performance. The group's objective is to have the best person in place to lead each business unit, and to have that person's successor in place. With the global nature of the group's operations, there is an increased focus on international management capability.



GERARD RUSSET COLOUR
METAL ROOFING TILES BEING
INSTALLED IN AUCKLAND

This is tied to a strong programme of management education and development centred on the 250 most senior executives in the group. This includes educational programmes with a mix of in-house and external provision, involving leading academic institutions in New Zealand, Australia, the United States and the United Kingdom.

With the growth in the international operations, the implementation of people development programmes has been decentralised regionally, but with policies and practices consistent across the group. A broad range of education, training and development opportunities is offered throughout the group.

Perhaps the most significant challenge in people management during the latest year was the programme to welcome and integrate the 4,000 Formica employees into the Fletcher Building group. The cultural diversity and international spread of the Formica operations have made this a formidable task, but one which is proceeding successfully and with high satisfaction levels as reported in employee surveys.

Health and safety

The group achieved a further improvement in safety performance as measured by the lost time injury frequency rate (LTIFR). The rate for the year was 5.39 lost time injuries per one million hours worked, compared with 7.02 in the previous year. Most business units are showing consistent improvement.

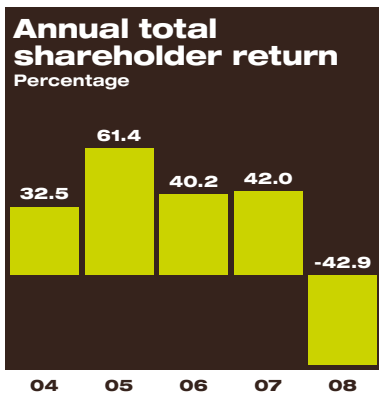
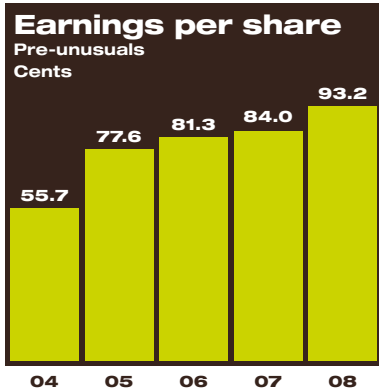
The group is also introducing total injury rates and positive performance indicators to provide a broader perspective on safety management. As part of this approach the Fletcher Building Annual Safety Awards were introduced during the year. AHI Roofing won the award for Business Unit Health and Safety Performance Excellence after reducing its LTIFR from 12.7 to 4.7 per million hours and its total injury frequency rate from 23.6 to 10.9 per million hours.

The Gales site of Rocla Pipelines won the award for the most effective safety initiative, based on promoting safe working behaviours and the use of focus groups to develop action plans. Solomone Fifita of Easysteel Christchurch won the award for the outstanding individual contribution.

In New Zealand, the group retained primary-level membership of the Accident Compensation Corporation Partnership Programme following external audits in November 2007 and June 2008. Australian manufacturing sites are subject to differing injury management requirements, based on state regulation and the range of schemes available. Self-insurance is usually the preferred option. The group is currently reviewing its approach.

Environmental sustainability and climate change

Fletcher Building is actively focused on preparing for the challenges of the future, of which the most imminent is the introduction of measures to control emissions of greenhouse gases. It has a range of strategies to improve its positioning, including recycling of raw materials, production of renewable energy – particularly through biomass and heat technologies – and achieving greater energy efficiency through improvements in plant and equipment.



Summary

The group participated in the international Carbon Disclosure Project for the third time in the latest year. This requires a complete inventory of carbon dioxide emissions and a report describing how risks and opportunities arising from future climate change are being managed. Data supplied to the project was independently verified. While participation is voluntary, the project is consistent with the desire to have a proactive approach to carbon dioxide emissions.

The group is also participating in the Australian Energy Efficiency Opportunities programme. This requires all companies using more than 0.5 petajoules of energy per year to work through a programme of energy efficiency audits for their major energy-using sites in Australia.

Fletcher Building business units have a range of products and building solutions that will improve the energy efficiency and comfort of buildings. The group is constantly developing new methods for the use of its products to enable improved thermal performance. As well as enhancing the attributes of its building materials, it is also developing building solutions involving concrete, plasterboard and fibreglass insulation that improve heat retention and other performance attributes.

The group is also participating in a number of organisations providing leadership on sustainability. These include the Beacon Pathway research consortium, the Australian and New Zealand Green Building Councils and the New Zealand Business Council for Sustainable Development.

As chief executive officer of Fletcher Building I am a member of the New Zealand Government's Climate Change Leaders Forum, established to provide independent advice to the Government on potential climate change policies including the emissions trading scheme. A number of Fletcher Building executives are participating in other Government working groups.

The 2008 year has been one of significant challenges. The group has responded with a view to positioning it to see out the short-term softness in markets, and to be ready to take advantage of the inevitable cyclical improvement. While this programme will never be complete, I am confident that good progress has been made to build earnings resilience, and the group is in good shape to maintain a high level of performance.

Jonathan Ling

Chief Executive Officer and Managing Director