

A challenging year

This has been a very challenging year for the company as it has faced declining construction markets around the world and the after-effects of the global financial crisis.

Operating performance

For the year ended 30 June 2009, the group recorded net earnings after tax, before unusual items, of \$314 million. This compares with \$467 million in the previous year. Operating earnings (earnings before interest and tax) before unusual items were \$558 million compared with \$768 million in the previous year.

Cashflow from operations was up strongly at \$533 million compared with \$434 million in 2008. This is a robust performance given the economic climate during the year.

The result reflects a strong performance from the Steel division, which benefited from high prices and strong demand in the first half of the year, although steel prices and volumes eased in the second half. All other divisions recorded lower operating earnings than the prior year due to the slowdown in building activity across most markets.

Infrastructure experienced strong growth in construction activity during the year, more than offsetting weaker demand for cement and concrete products in New Zealand. Businesses exposed to the New Zealand residential markets saw weaker sales, particularly Distribution and the plasterboard and panels businesses. Laminates sales were steady with a stronger performance in Asia offsetting weak European markets. Business performance in Australia was mixed, and there was a marked slowdown in activity in the second half due to weakness in the Queensland and Western Australian markets.

Details of the performance of each of the businesses are contained in the divisional reviews on the following pages.

Excluding unusuals the result represents a 10.8 percent return on average equity, and an 11.9 percent return on average funds employed. This is lower than the previous year and is due to the cyclical low point in the cycle for building materials. Total shareholder return – the movement in share price plus pre-tax dividends – was 14.1 percent for the year. This is a pleasing turnaround from the prior year and reflects the efforts of the group to manage effectively the business through challenging economic conditions.

Unusual items

As announced in April 2009, unusual items of \$360 million were incurred for the year, giving rise to a net loss of \$46 million. Unusual items comprised charges for restructuring and manufacturing capacity reduction initiatives, and the impairment of certain assets. The latter are non-cash in nature and represented three percent of the group's total assets at 30 June 2009.

While the net loss is disappointing, a number of the unusual items relate to actions which will benefit the company over time. In particular, the restructuring and capacity reduction initiatives will ensure that the business is well placed to benefit from a recovery in markets, with efficient appropriately scaled manufacturing operations, and lower unit costs.

Much of this work has already been completed or is well in train. All divisions undertook business rationalisations in response to reductions in demand. Manufacturing capacity is being reduced at Laminex and Formica where there is an imbalance with assessed future demand. Projects under way are designed to lift product profitability and reduce customer distribution and service costs, while at the same time maintaining service quality.

Dividend

A final dividend of 14.0 cents per share brings the total dividends for the year to 38.0 cents per share, compared with 48.5 cents per share in the previous year. The reduced dividend has enabled cash to be retained in the business which the board feels is appropriate in the context of current market conditions. Future dividend levels will be determined with reference to earnings performance and trading conditions.

The final dividend will be paid on 15 October 2009. It is partly credited for New Zealand tax purposes, having been imputed at a 30 percent tax rate to the extent of 7.0 cents per share. The final dividend is not franked for Australian tax purposes. Further details are available in the Investor Information section of the annual report.

Capital raising

The company successfully raised \$526 million in new equity in April and May through an institutional share placement, a Share Purchase Plan and a Top-Up Offer. The high level of participation in the capital raising by existing shareholders was especially pleasing. The new equity raised has strengthened considerably the company's balance sheet.

People

This year has been especially challenging for our people as they have worked in an environment of lower volumes and at times significant cost pressures. The restructuring activities that have been undertaken have been necessary and the board is cognisant of the impact these have had across the business. It is thus particularly appropriate to acknowledge formally the substantial contribution made by all our people during the year in meeting the demands of such a difficult trading environment.

It is appropriate to acknowledge our appreciation of the fact that management voluntarily decided to forgo any remuneration increases for the normal remuneration review



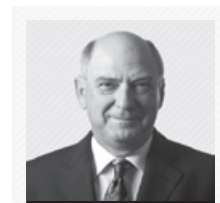
Roderick Deane
Chairman



View the Chairman's review online:
fletcherbuilding.com/09/chairman



Read further:
Financial review
Pages 28-29



Ralph Waters
It is intended that Ralph Waters will assume the position of Chairman on 1 April 2010.

which occurs after the year's accounts are finalised. Moreover, given the decline in earnings, a substantial majority of the senior management team will not receive any short-term incentive payments with respect to the 2009 year.

The company is fortunate to have an experienced senior leadership group. This depth of internal company and industry knowledge, together with the strong external experience of more recent senior appointees, presents the company with a rich leadership resource pool for succession purposes.

Board changes

Planned succession arrangements saw Paul Baines and Geoffrey McGrath retire from the board in June 2009.

Two new directors, Gene Tilbrook and Alan Jackson, have been appointed to the board with effect from 1 September 2009. The two new directors have considerable business experience and will be valuable additions to the board.

I have also indicated that I will retire from the board on 31 March 2010. It is the current expectation of the board that I will be succeeded as Chairman by current non-executive director, and former chief executive, Ralph Waters.

The board records its warmest appreciation to Paul Baines and Geoffrey McGrath for their major contributions to the governance and oversight of Fletcher Building. They are both gifted non-executive directors and the company benefited greatly from their participation in our board leadership.

The changes in board composition are in line with the changes signalled at the annual shareholders' meeting last year, and are in accordance with the company's governance guidelines. The board has determined that both Mr Tilbrook and Dr Jackson are independent directors.

It is noted that directors will not receive any increase in directors' fees this year given the decline in earnings last year.

Outlook for 2010

The outlook for the 2010 financial year is subdued, and most markets are expected to record continuing low levels of activity relative to recent years. This will be particularly noticeable in the first half, where comparisons with the prior year will reflect the more favourable conditions that were seen for Formica in Europe, in Steel, and across the Australian businesses in 2009, all of which have deteriorated markedly since the first half of 2009.

In New Zealand, the Government's commitments to accelerate spending on infrastructure should continue to provide opportunities for the construction, concrete and long steel operations. However, this will only partly ameliorate the effects of lower private sector commercial construction activity

and continued subdued demand in the residential market. Furthermore, a lag is anticipated until the Government's proposed acceleration of infrastructure work gains traction.

Similarly the insulation business in Australia and New Zealand will continue to benefit from the household insulation incentives introduced recently as part of broader economic stimulus measures.

In Australia, while infrastructure spending is expected to benefit the concrete products business, this will only offset in part the lower demand for rolled steel products from the commercial sector. The outlook for residential building is uncertain, but lower levels of activity are anticipated in Queensland and Western Australia.

Volumes in the North American market are expected to continue at low levels, particularly in non-residential, while all segments in Europe are likely to see volumes at significantly lower levels than in 2009. Parts of Asia are expected to show reasonable growth, but this is likely to be patchy and there is a risk that growth rates will slow relative to last year.

The past year has been a difficult one but we are satisfied with the progress we have made. While our results were impacted significantly by the slowdown in building activity around the world, we have ended the year in fundamentally good shape, having both the financial strength and the appropriately sized manufacturing capacity we need to meet demand over the medium term.

Centenary

It is unusually pleasing to be able to record that 2009 marks the 100-year anniversary of the company's foundation. Over those many years the company has seen periods of great growth and depressions; it has contributed significantly to the building of New Zealand; and it has outlasted many other companies. The professionalism, enthusiasm and creativity of our staff has been the key to our success; building and maintaining this culture within the company has been the remarkable achievement of successive management teams; and we acknowledge their leadership and contributions over many years. We thank our customers for their confidence in us and our suppliers and the community more generally for their great support for us. We look forward with confidence to our second 100 years.