



CREATING OPPORTUNITIES IN CHALLENGING TIMES - A New Zealand Perspective

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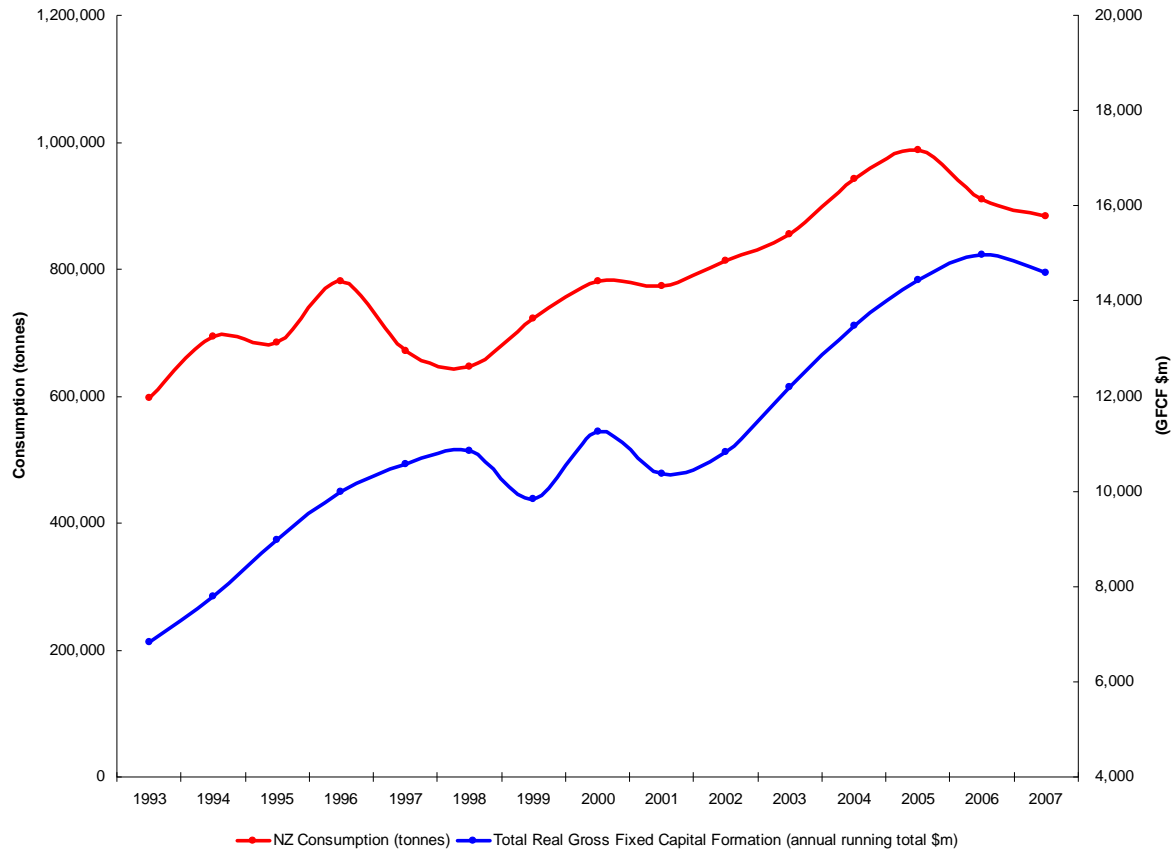
Can we apply learnings from NZ across into Australia?



Key Topics to be Discussed

- New Zealand is already in a recession and facing a downturn in traditional steel consuming markets. Where is Australia heading?
- Opportunities exist for building suppliers to shift their focus to segments where investment remains strong.
- A number of market factors are in flux, creating challenges and opportunities.

NZ steel consumption has risen steadily



MAIN SEGMENTS

- Residential Construction
- Commercial/Industrial
- Manufacturing Sector
- Heavy Buildings
- Infrastructure and Engineering
- Rural and Specialty

A brief history of steelmaking in New Zealand

Pacific Steel Group, Auckland - EAF

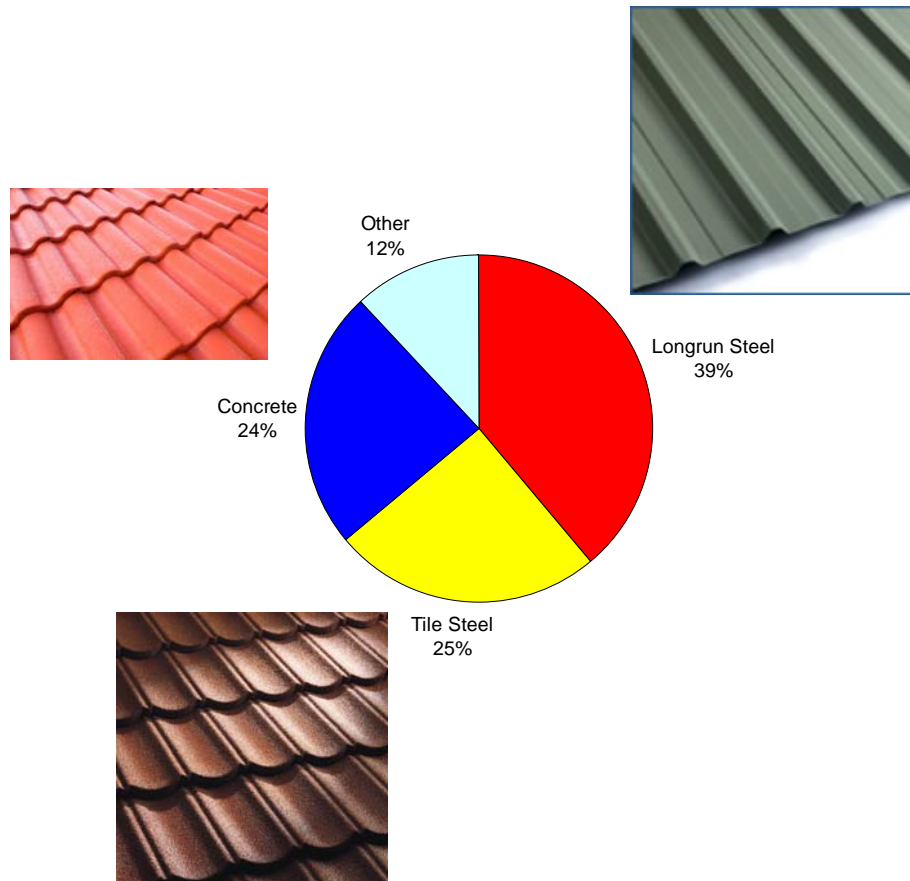
- Ingot casting started in 1962. 3 strand ROKOP concaster installed 1979
- Wire mill operations also commenced in 1962 as GKN
- 2nd hand Lamberton cross-country rolling mill installed 1962
- New Krupp 50 tonne EAF installed 1972
- Price control removed 1985, but briefly continued for NZS
- 42% owned by NZ Steel in 1986, who then supplied some billet
- Sims scrap JV commenced December 1992 on adjacent site with the existing Fletcher shredder
- New Danieli rod & bar mill installed 1997

New Zealand Steel, Glenbrook – Integrated Steelworks

- Commenced in 1968 processing imported coil on a galvanising line
- Pioneering ironsand based steel making facilities added in the 1970's
- Owned by the NZ government in 1980's
- 110MW cogeneration capacity added in 1998
- In the 1990's, BHP takes control of the facility
- Now positioned to realise its competitive advantage based on its unique process under BSL ownership.

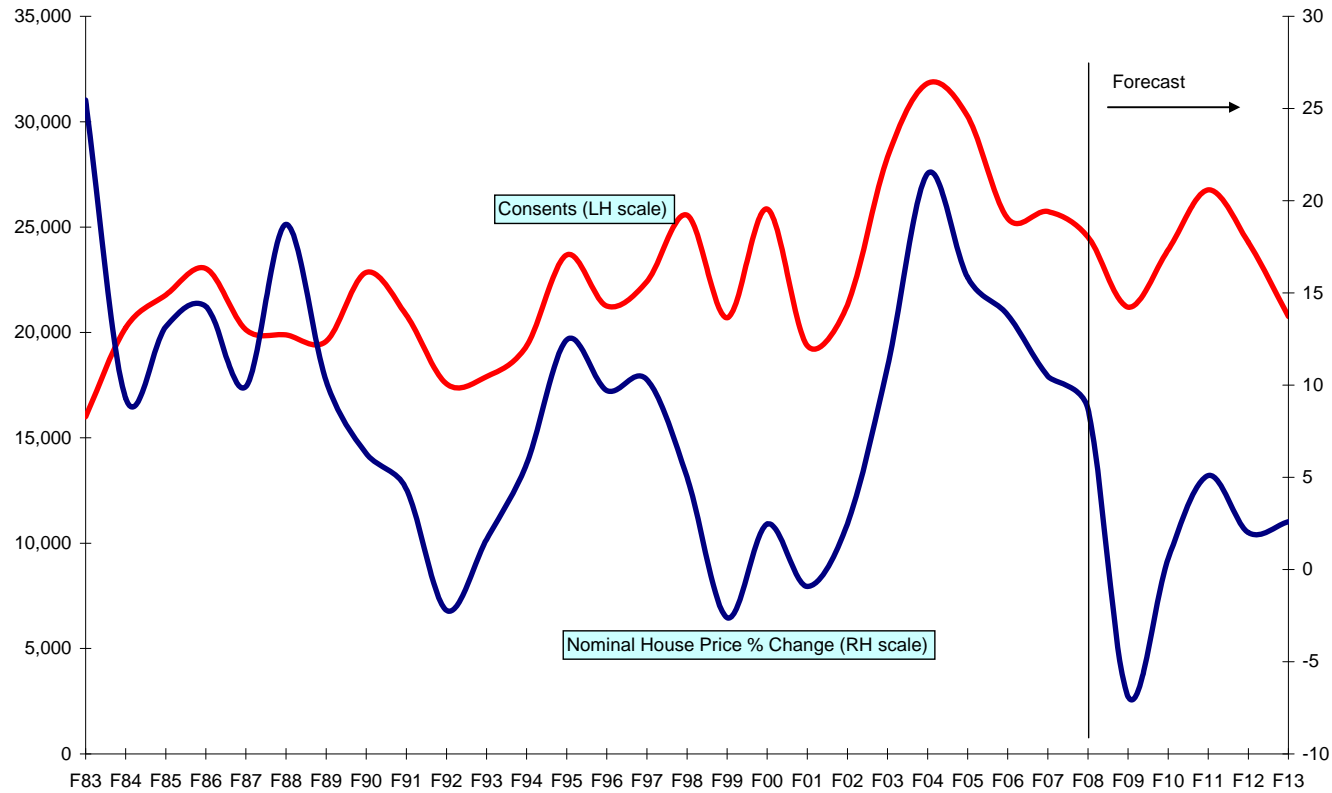
Fletcher Steel Engineering Company , Wellington, 1965. View looking west toward airport and city. Quarantine facility is on Somes Island in centre

The NZ residential market is roughly the size of WA



- Housing activity is currently depressed (around 20,000 starts) with modest price declines
- Pressed and stone coated steel tiles service 1/4 of the roofing market
- Sector revenue is estimated at ~NZ\$180m
- Estimated 30,000 steel tonnes
- Many rollformers, 3 with national presence
- Concrete tiles are a less significant roofing product in New Zealand than in Australia.

A forecast drop in residential activity is becoming reality



New Zealand's first State House at Miramar in Wellington. Built by the Fletcher Construction Company in 1937.

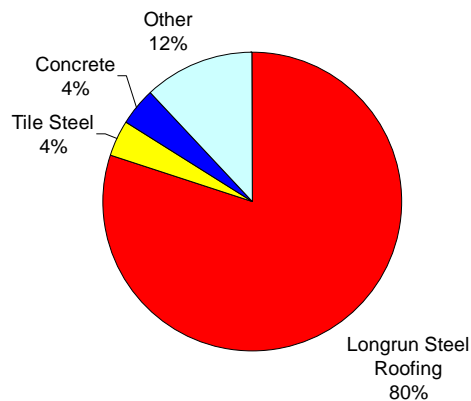


New house built by Fletcher Residential in Auckland, 2007

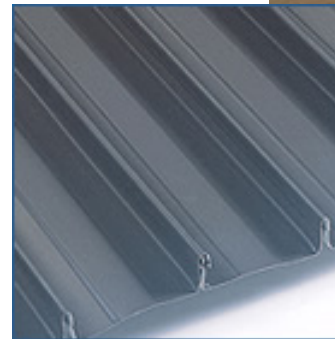
Source: Infometrics

The NZ commercial & industrial building market

- Very strong steel share
- Membranes are more significant than in the residential sector
- Sector revenue is estimated at ~NZ\$220m
- Estimated 75,000 steel tonnes

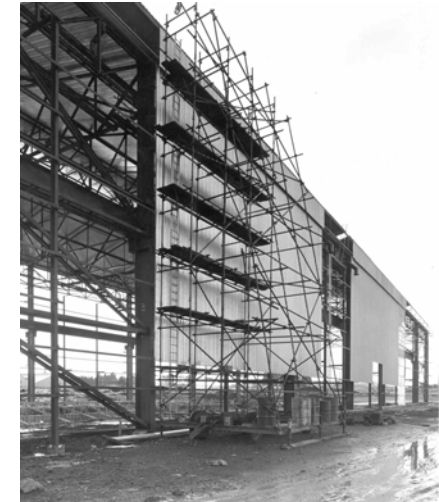
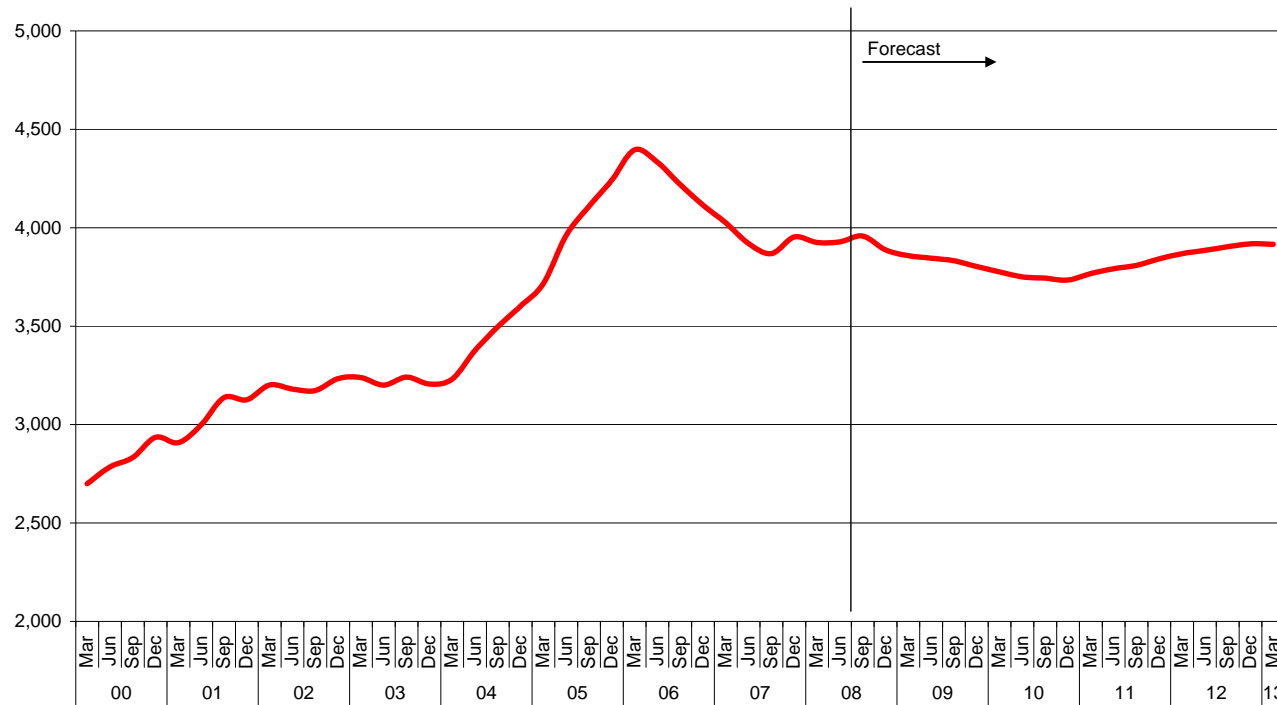


Delegat's winery, Blenheim



Commercial building activity is forecast to soften as well

Non-residential activity at 1995 - 96 prices. Gross fixed capital formation (\$m)



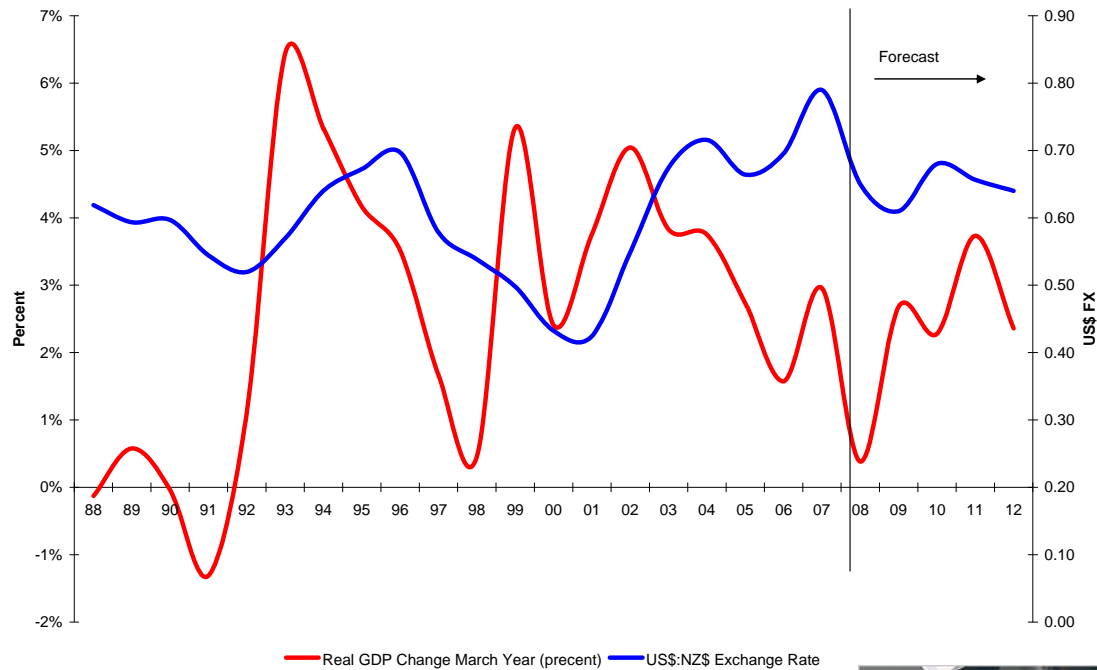
Installing steel plant cladding at Pacific Steel in 1962. This building housed ingot casting until 1979.



88 metre long Dimond sheets, Palmerston North 2008.

Source: Infometrics

Manufacturing has moved off shore and spending is down



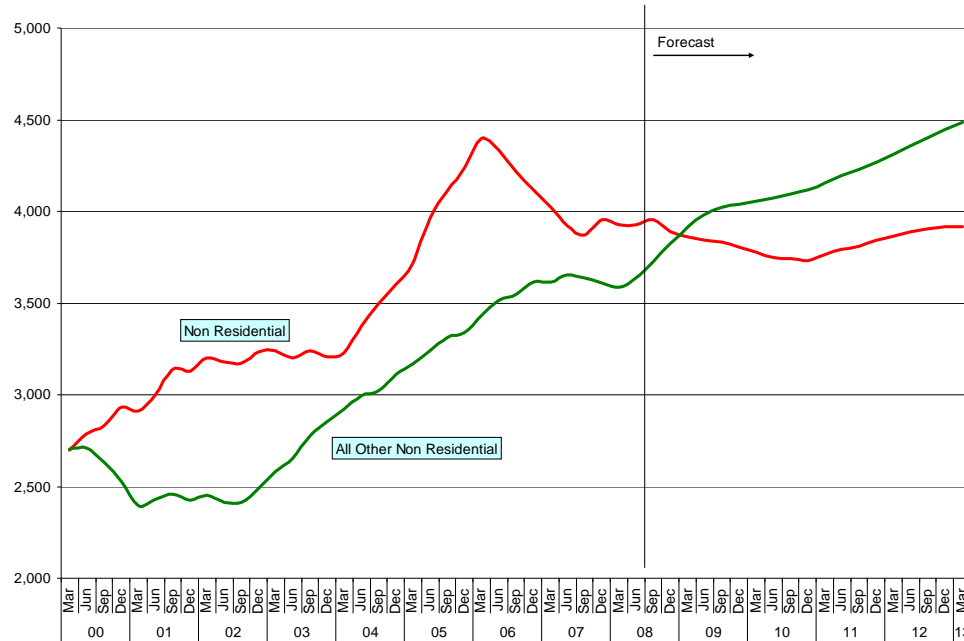
- GDP and FX rate are fundamental drivers.
- Circa 300,000 tonnes are consumed: flat, merchant, special steels, etc
- There has been some migration of manufacturing to non-OECD countries. An example is Fisher and Paykel to Thailand
- A slump in profitability heralds a potential sharp pull-back in capex



Source: Infometrics

Heavy construction projects continue to hold up the market

Activity at 1995-1996 prices. Gross fixed capital formation (\$m)



- GDP growth went into negative territory in Q1 2008, but genuine recession likely began in Q2
- Circa 300,000 tonnes consumption p.a., principally reinforcing, merchant bar, structural sections, and beams
- Stadia: Rugby World Cup in 2011: Eden Park, AMI Christchurch, Carisbrook Dunedin
- Solid backlog of private and Government work - hospitals, education, prisons, etc.



Auckland Hospital extension



Wellington Hospital

Large scale infrastructure and engineering projects continue

- Fueled by government spending
- Significant participants are Downer, Fletchers, Mainzeal, and Multiplex
- Serviced by large regional fabricators
- Steel usage of 150,000+ tonnes per annum
- Upgrades to Transportation - Manukau harbour crossing, New Lynn railway, Waterview trench, Tauranga Harbour link, Victoria Park
- Development of Power Generation – Windfarms and geothermal
- Resource Movement – Water, Oil and Natural Gas infrastructure



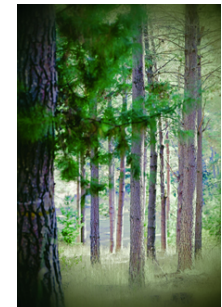
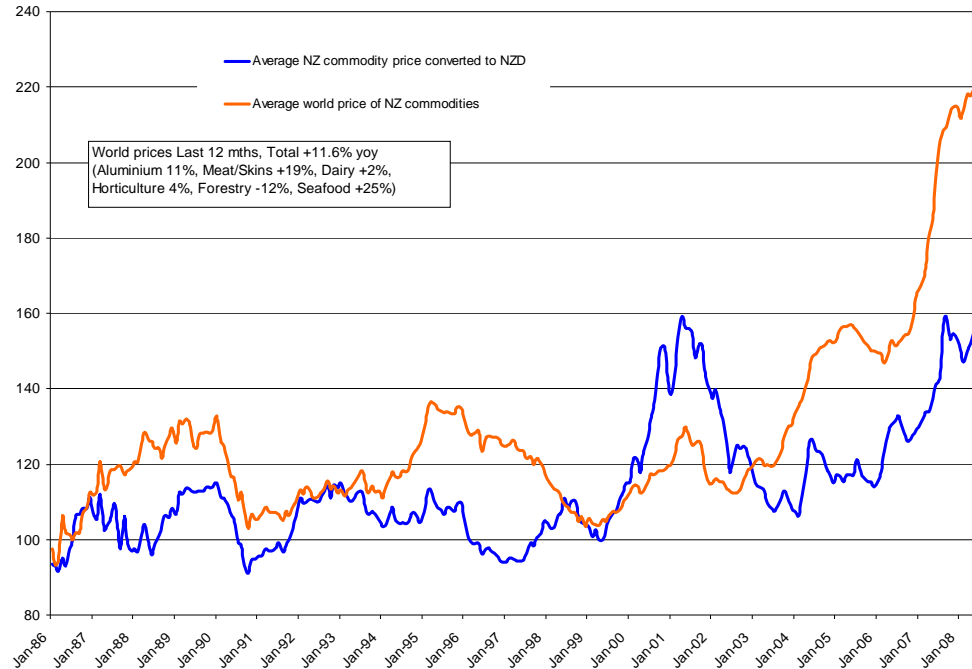
Investment in power generation is forecast to be strong

- 3% of NZ's electricity is from wind but its share is growing fast
- 20% effective capacity share in Denmark, which is less windy
- Medium term expectation for wind is for vicinity 1200 MW, which would consume about 25,000 tonnes of steel just in the foundations
- Makara farm is 62 turbines for total 140 MW
- Typically EU-made blades, gears and generator. Rolled tower sections are 12mm to 30mm G300 plate.
- Current max scale is 100m rotor with 5MW generator

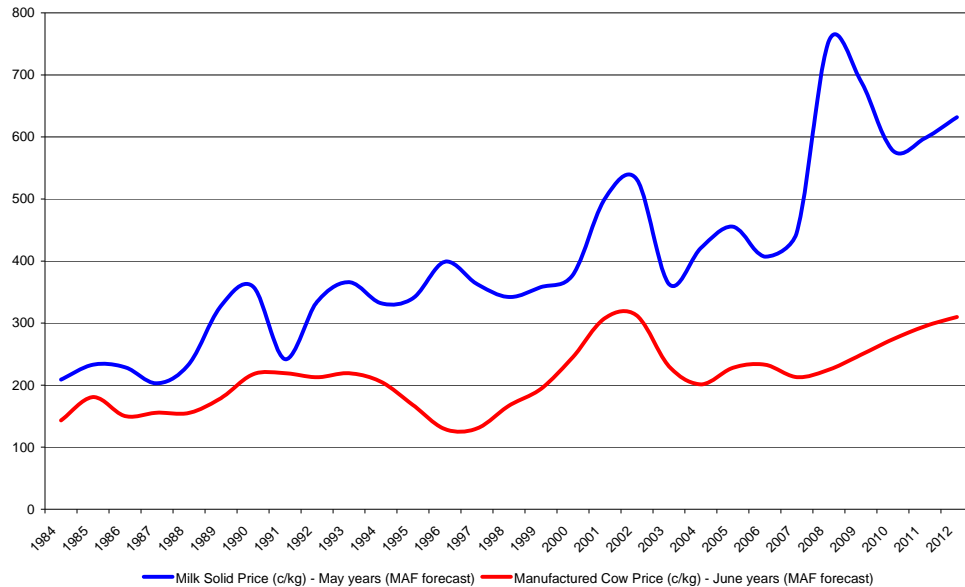


48 tonnes of steel in each 15m base of the 112m high Makara turbines

Commodity prices have risen sharply, generating wealth



Dairy farming and exports have “milked” large profits



- Sound fundamentals in rural commodities over the last few years with a strong outlook. NZ has comparative advantage in rural, and declining NZD is an added boost
- Significant investment in dairy production. It contributes NZ\$10b in export receipts.
- In Southland, dairy farm profit before tax increased six-fold in 2007/08.
- Average farm has \$1.5m gross income and \$460k surplus from 195k kg of solids.



Source: Infometrics

New Zealand's ETS is likely to become reality



- NZ ratified the Kyoto Protocol in Dec 2002. Its emissions in 2008 to 2012 to be no more than five times its 1990 emission level
- NZ is 73 mt of CO2 equivalents for 0.2% of world. (Australia is 491 mt for 1.5%). New Zealand will need to purchase between 20 and 40 mt to meet its Protocol commitments.
- A disproportionately large share of emissions relate to agriculture (50% compared to 7% on average internationally)
- Corollary is a disproportionately small amount of emissions coming from energy (23% relative to 63% internationally)
- Target for Pacific Steel to match 2005 baseline emissions by 2011
- Measures may change with government, helping or hurting NZ based suppliers

Green Star New Zealand



Club Tower - 5 Star Green Star Rated Building currently being built in Christchurch by Hawkins Construction on the site adjoining the Canterbury Club on Worcester Boulevard.

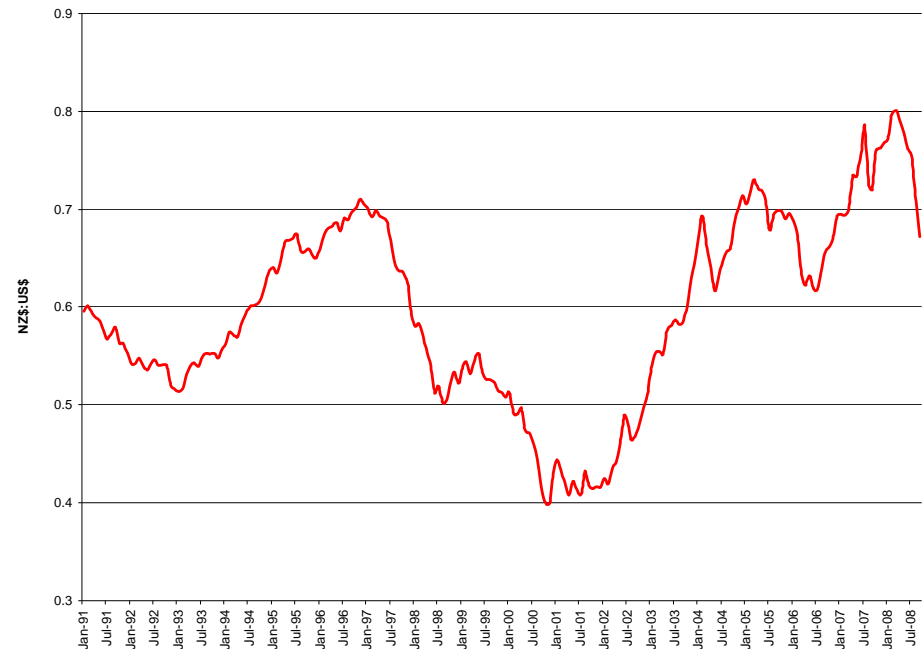


- Star ratings similar to those in Australia are gaining a foot-hold, but are not formally part of the new Building Code.
- While only 8 of the 130 credits relate to steel, there needs to be focus on steel if one seeks 5 or 6 star ratings.
- Rather than telling people exactly how to build or construct, the New Zealand Building Code is performance-based, and sets out objectives to be achieved.
- Ratings will impact rental rates and building value to current and future owners.
- Emerging awareness in central government of the good sense in making steel locally for local consumption – carbon footprint, transport inefficiencies, standards, back-up
- But we may expect an impact on the way we package and label steel to identify mill origin (i.e. distance travelled) and production route (i.e. the embodied energy level).

Beyond our control but must be monitored...

- Kiwi/USD and AUD/USD exchange rates
- Banking/credit crisis
- Change in government policy toward spending
- Global steel demand as US and EU consume less
- Iron ore/scrap costs and output pricing
- Ocean freight rates

NZD USD Exchange Rate 1991-2008



There will always be challenges and change

- While steel consumption has generally risen, the mix changes over time
- Tight global supply has proven the value of local service
- Traditional residential and commercial markets are at risk
- Economic conditions and policy change will shift the market
- Scan the horizon to locate pockets of liquidity and spending

