



Presentation to Macquarie Securities NZ Building & Construction Day

Jonathan Ling, Chief Executive Officer
15 October 2010



Disclaimer

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Agenda

- NZ residential – current state of play
- NZ household trends
- Catalysts of change in demand
- Christchurch earthquake impact
- NZ Commercial sector
- Infrastructure



NZ Residential – current state of play

- Approvals currently running at approx. 16,000 per annum vs. 15 year average of 23,700
 - but up 19% on pcp
- Consensus for the current year has fallen from 18,000 – 20,000 houses to 16,000
- Apartment consents are running at 15 year lows, down 45%*
 - Single dwelling consents are up 28%*
- Alterations and additions are up 2.8% after 2 years of decline*
 - “leaky home” remediation expected to positively impact this trend
- House prices are 5% below their peak in 2007
- House sales volumes are depressed – 39% below 2007 levels

* 12 months to 31 August 2010



NZ Households are starting to deliver

- Household debt has increased 150% since 2000
 - Household debt to disposable income was 105% in 2000, peaked at 159% in 2008
 - But reducing, now at 154%
- House prices to disposable income:
 - 4.9x versus 3.5x in 2000 (peaked at approximately 5.3x)
 - 3.2x long run average
- However, debt serviceability is unchanged in real terms since 1990 due to
 - Lower mortgage interest rates
 - Real wage earnings growth
- Reduction in income tax rates from 1 October 2010:
 - Top tax rate reduced to 33% from 38%
 - GST to rise to 15% from 12.5%



Potential catalysts for a pick up in residential construction in NZ:

- Personal income tax cuts from 1 October 2010
- Continued strong net immigration
- Rebound in consumer confidence
- Improvement in labour force employed and hours worked
- Low interest rates & competitive mortgage market
- But look for regional variances i.e.
 - Auckland is under built
 - Provincial areas, especially North Island are overbuilt



Watertightness – fixing “Leaky Homes”

- PWC report of March 2010 estimated 22,000 to 89,000 dwellings affected
- Consensus forecast is 42,000 dwellings require repair, at a total cost of \$11.3 billion
 - 10 years for complete remediation
- New scheme proposed from first quarter of 2011:
 - Government to pay 25% cost of repair
 - Local council to pay 25% cost of repair
 - Home owner to pay remaining 50%, but supported by government guarantee of associated bank borrowing



Impact of Christchurch earthquake

- All FBU Christchurch based businesses are back up and running
- Trading in Christchurch has been quiet while repairs are assessed and insurance claims are lodged
- No significant impact on trading result is expected in the first half of FY2011
- Residential rebuilding activity expected to accelerate in second half of FY2011
- Fletcher Construction have tendered to manage the Earthquake Commission's earthquake project management office.
- Commercial and infrastructure repairs expected to take longer



Commercial Activity

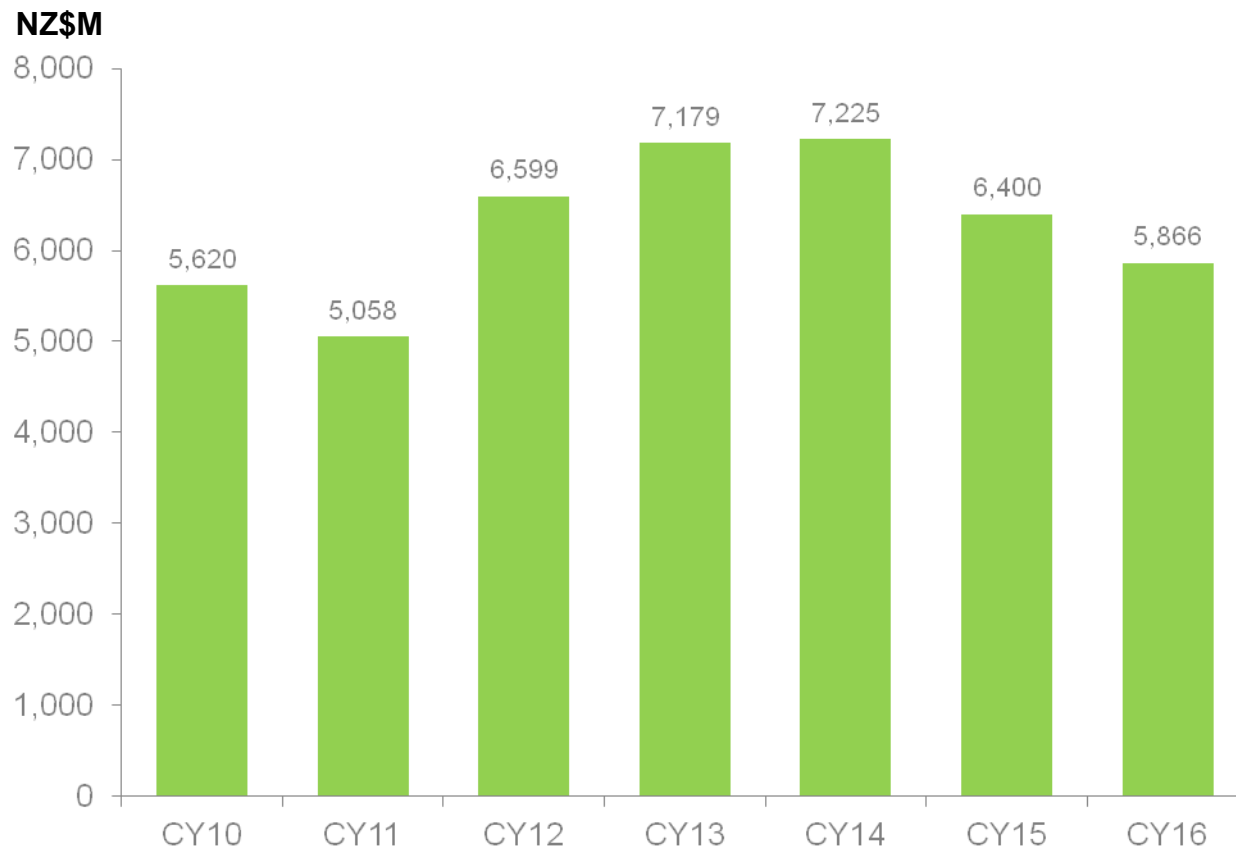
- Activity levels in the non-residential sector are at their lowest levels since early 2004*
- Value of non-residential consents to August 10 \$3.97bn, down 21.8% on prior year
- Shortage of development finance is hampering sector recovery
- Biggest falls have been in office buildings, storage and warehouses
- Continued growth in government-funded work – health, cultural and education facilities
- Government funded infrastructure pipeline remains robust

* Source: Dept of Building and Housing



Infrastructure Outlook

National Infrastructure Plan: CY10 to CY16



Source: National Infrastructure Plan March 2010





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