2006

Annual Report

Fletcher Building Finance Limited

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2006 Annual Report
Fletcher Building Finance Limited

Letter from the Chairman

I am very pleased to present the fourth annual report to holders of Fletcher Building Finance Limited capital notes.

Fletcher Building Finance is a wholly owned subsidiary of Fletcher Building Limited and its results and financial position need to be read in conjunction with the Fletcher Building 2006 annual report, a copy of which is enclosed if you are not also a Fletcher Building shareholder. The terms of issue of the capital notes by the company provide that they are guaranteed on an unsecured subordinated basis ranking pari passu or equally with other capital notes issued by Fletcher Building Limited.

So as to ensure that the 2002 capital notes issued by the company will continue to rank pari passu with the capital notes issues by Fletcher Building Limited, the company does not seek to maintain over time significant shareholders' funds. Equally, it does not intend to be in a shareholders' funds deficit position. The results of the company need to be considered against this background.

Results for the period

Net earnings after tax for the year to 30 June 2006 were $3.7 million (2005: $4.8 million) with shareholder funds of $31.3 million (2005: $29.6 million).

Business activities

The company was established principally to facilitate the funding for the Laminex acquisition by Fletcher Building but has extended this to a wider role as a financing subsidiary for the group. It has issued capital notes and also borrowed funds pursuant to the banking facilities of Fletcher Building. These facilities are fully guaranteed by Fletcher Building. Funds borrowed, including the funds raised by the issue of the capital notes have been lent on interest-bearing terms to other Fletcher Building group companies. The interest payments made to the company give rise to tax credits that are available to the shareholders of Fletcher Building Limited, and are distributed by way of a dividend to Fletcher Building Limited. The dividend paid during the year was $73 million (2005: $28 million).

To maintain the company's solvency ratio, Fletcher Building contributed an additional $70 million of equity during the financial year (2005: $30 million). The company maintains a foreign currency hedge transaction with Fletcher Building to minimise currency impacts on its earnings and financial position.

Corporate governance

As a wholly owned subsidiary of Fletcher Building, the company is required to comply with the corporate governance practices of its parent. These procedures are wide ranging and include written delegations of authority to the chief executive, and delegations by the chief executive to other executives prescribing those matters that are reserved for approval by the board, and those matters that can be attended by management. In addition, these corporate governance procedures include:

Letter from the Chairman

- terms of appointment of directors;
- terms of reference of the chairman, directors and management;
- code of conduct;
- charters for audit, remuneration and nomination committees of the board; and
- processes for evaluating the independent status and performance of directors.

In recognition that the corporate governance procedures of Fletcher Building Limited will apply to the company, and that the Companies Act 1993 allows directors of a subsidiary company such as Fletcher Building Finance Limited to act in the best interests of the parent company, the New Zealand Exchange (NZX) has granted a waiver such that the company does not need to comply with the full corporate governance and other regulatory disclosures, provided that the Fletcher Building annual report include these disclosures, and a copy is provided to all noteholders of the company.

Specific governance initiatives instituted by the company include requirements that:

- the directors of the company shall only be those persons who are directors of Fletcher Building;
- the chairman, chief executive, chief financial officer and company secretary of Fletcher Building shall hold the equivalent roles in the company;
- no remuneration shall be payable to any director or executive of the company;
- an audit committee be established, the constituency, chairmanship and charter being the same as that of the Fletcher Building audit committee.

The directors of the company believe that these initiatives combined with the overarching governance procedures of Fletcher Building provide an appropriate basis for ensuring the company meets its fiduciary obligations to the capital noteholders. Consistent with these governance principles, Jonathan Ling, the newly appointed chief executive of Fletcher Building Limited, has been appointed to the board with effect from 1 September 2006.

The financial position of the company is dependent on that of Fletcher Building which I am pleased to report has again performed very well in the June 2006 year. To gain a full appreciation of the activities and performance of the wider Fletcher Building group, I recommend that you read the Fletcher Building annual report and review its website (www.fletcherbuilding.com).

If you have any questions on matters relating to Fletcher Building Finance or Fletcher Building, please use the contact details set out in this report.

Roderick Deane Chairman

This report is dated 30th August 2006 and is signed on behalf of the Board of Fletcher Building Finance Limited by:

Roderick Deane Chairman **Ralph Waters** Chief Executive Officer

Earnings Statement and Statement of Movements in Equity

For the year ended 30 June 2006

Earnings Statement

	Notes	Year Ended June 2006 NZ$	Year Ended June 2005 NZ$
Investment income	2	**106,663,737**	75,827,322
Operating expenses		**(494,677)**	(373,553)
Operating earnings		**106,169,060**	75,453,769
Funding costs	3	**(97,527,703)**	(68,255,188)
Earnings before taxation		**8,641,357**	7,198,581
Taxation expense	4	**(4,937,632)**	(2,408,850)
Net earnings		**3,703,725**	4,789,731

Statement of Movements in Equity

	Notes	Year Ended June 2006 NZ$	Year Ended June 2005 NZ$
Total equity			
At the beginning of the year		**29,565,471**	22,775,283
Net earnings for the year	6	**3,703,725**	4,789,731
Movement in currency translation reserve	6	**1,048,948**	457
Total recognised revenues and expenses for the year		**4,752,673**	4,790,188
Increase in share capital	5	**70,000,000**	30,000,000
Dividend paid to Fletcher Building Limited	6	**(73,000,000)**	(28,000,000)
Total equity		**31,318,144**	29,565,471

The accompanying notes form part of and are to be read in conjunction with these financial statements.

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Balance Sheet

As at 30 June 2006

	Notes	June 2006 NZ$	June 2005 NZ$
Assets			
Current assets:			
Cash and liquid deposits		**2,417**	571
Provision for current taxation	8	**97,196,696**	8,768,329
Debtors		**1,219**	
Total current assets		**97,200,332**	8,768,900
Non-current assets:			
Amounts owing by related companies	13	**1,490,173,825**	1,437,329,287
Total non-current assets		**1,490,173,825**	1,437,329,287
Total assets		**1,587,374,157**	1,446,098,187

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Balance Sheet continued

As at 30 June 2006

	Notes	June 2006 NZ$	June 2005 NZ$
Liabilities			
Accrued interest		**5,765,065**	5,760,095
Creditors		**95,447**	1,150,267
Amounts owing to related companies	13	**1,088,056,982**	
Total current liabilities		**1,093,917,494**	6,910,362
Non-current liabilities:			
Capital notes	9	**148,873,712**	147,432,473
Term debt	10	**313,264,807**	279,171,210
Amounts owing to related companies	13		983,018,671
Total non-current liabilities		**462,138,519**	1,409,622,354
Total liabilities		**1,556,056,013**	1,416,532,716
Equity			
Reported capital	5	**150,000,000**	80,000,000
Reserves	7	**(118,681,856)**	(50,434,529)
Total equity		**31,318,144**	29,565,471
Total liabilities and equity		**1,587,374,157**	1,446,098,187

The accompanying notes form part of and are to be read in conjunction with these financial statements.

On behalf of the Board, 9 August 2006

Roderick Deane Chairman of Directors

Ralph Waters Managing Director

Statement of Cashflows

For the year ended 30 June 2006

	Year Ended June 2006 NZ$	Year Ended June 2005 NZ$
Cashflow from operating activities:		
Revenue received	**108,103,910**	76,846,789
Payments to suppliers, employees and other	**(75,479,186)**	(373,553)
Interest paid	**(98,867,247)**	(67,209,245)
Taxes paid	**(34,023,178)**	(15,668,493)
Net cash from operating activities	**(100,265,701)**	(6,404,502)
Cashflow from financing activities:		
Advances from/(to) related companies	**103,267,326**	4,393,654
Issue of shares	**70,000,000**	30,000,000
Dividend paid to Fletcher Building Limited	**(73,000,000)**	(28,000,000)
Net cash from financing activities	**100,267,326**	6,393,654
Net movement in cash held	**1,625**	(10,848)
Add opening cash and liquid deposits	**571**	11,473
Effect of exchange rate changes on net cash	**221**	(54)
Closing cash and liquid deposits	**2,417**	571

The accompanying notes form part of and are to be read in conjunction with these financial statements.

Reconciliation of Net Earnings to Net Cash from Operating Activities

For the year ended 30 June 2006

	Year Ended June 2006 NZ$	Year Ended June 2005 NZ$
Cash was received from net earnings	**3,703,725**	4,789,731
Adjustment for items not involving cash:		
Taxation	**(29,085,546)**	(13,259,643)
Prepayments	**1,440,173**	925,991
Trade creditors and accruals	**(1,341,583)**	119,952
Cash was (paid)/received on financial instruments	**(74,982,470)**	1,019,467
Net cash from operating activities	**(100,265,701)**	(6,404,502)

The accompanying notes form part of and are to be read in conjunction with these financial statements.

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Statement of Accounting Policies

For the year ended 30 June 2006

Basis of presentation

The financial statements presented are those of Fletcher Building Finance Limited (the company). Fletcher Building Finance Limited is a company domiciled in New Zealand, is registered under the Companies Act 1993, and is an issuer in terms of the Securities Act 1978 and the Financial Reporting Act 1993. The registered office of the company is 810 Great South Road, Penrose, Auckland. The company is also registered in Australia as an overseas company under the Australian Corporations Act 2001.

The financial statements comprise the earnings statement, statement of movements in equity, balance sheet, statement of cashflows, and significant accounting policies, as well as the notes to these financial statements.

Accounting convention

The financial statements are based on the general principles of historical cost accounting, except that financial assets and liabilities as described below are stated at their fair value. These financial statements have been prepared in accordance with New Zealand standards that comply with International Financial Reporting Standards (NZ IFRS). The financial statements for the year ended 30 June 2006 are the first annual financial statements prepared under New Zealand Equivalent to International Financial Reporting Standard 1 First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS 1).

The company's financial statements were previously prepared under New Zealand generally accepted accounting practice (NZ GAAP). Reconciliations and descriptions of the effects of the transition from NZ GAAP to NZ IFRS including the impact on the company's earnings, equity and balance sheet are provided in the notes to the financial statements, as attached.

The policies set out as follows have been consistently applied to the comparative year and the 30 June 2004 opening balance sheet, except those relating to the classification and measurement of financial instruments. The company has used the exemptions available under NZ IFRS 1 to only apply NZ IAS 32 and NZ IAS 39 "Financial Instruments" from 1 July 2005 and comparative balances have not been restated for these, and instead follow the treatment under previous NZ GAAP.

Estimates

The preparation of financial statements in conformity with NZ IFRS requires the directors to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates. The estimates and assumptions are reviewed on an ongoing basis.

Valuation of assets

Debtors

Debtors are valued at estimated net realisable value. The valuation is net of a specific provision maintained for doubtful debts. All known losses are written off to earnings in the period in which it becomes apparent that the debts are not collectable. Trade debtors normally have 30 to 90 day terms.

Statement of Accounting Policies

For the year ended 30 June 2006

Cash

Cash and liquid deposits comprise cash and demand deposits with banks or other financial institutions and highly liquid investments that are readily convertible to cash.

Foreign currency

Translation of the financial statements of foreign operations

The assets and liabilities of the company's overseas operations are translated into New Zealand currency at the rates of exchange ruling at balance date. The revenue and expenditure of these entities are translated using an average exchange rate reflecting an approximation of the appropriate transaction rates. Exchange variations arising on the translation of these entities are recognised directly in the currency translation reserve.

Exchange differences

Monetary assets and liabilities in foreign currencies at balance date which are not covered by forward exchange contracts, are translated at the rates of exchange ruling at balance date. Monetary assets and liabilities in foreign currencies at balance date which are covered by forward exchange contracts, are effectively translated at the exchange rates specified in those contracts.

Non-monetary assets in foreign currencies are translated at the exchange rates in effect when the amounts of these assets were determined.

Net investments in foreign operations

Exchange differences arising from the translation of the net investment in foreign operations, and of related hedges are taken to the currency translation reserve and are released to earnings upon disposal.

Valuation of liabilities

Derivative financial instruments

Derivative financial instruments including foreign exchange contracts, interest rate swaps, currency swaps, options and forward rate agreements are utilised to reduce exposure to market risks.

Company policy specifically prohibits the use of derivative financial instruments for trading or speculative purposes. All the company's derivative financial instruments are held to hedge risk on underlying assets, liabilities and forecast or committed trading transactions.

The fair value of derivative financial instruments, as disclosed in the financial instrument note, is estimated based on quoted market prices.

The company holds derivative instruments until expiry except where the underlying rationale from a risk management point of view changes, such as when the underlying asset or liability which the instrument hedges no longer exists, in which case early termination occurs.

Derivative financial instruments are initially recorded at fair value and are then revalued to fair value at each balance sheet date. The gain or loss on revaluation is recorded either in earnings or equity depending on whether the instruments qualify for hedge accounting and the nature

Statement of Accounting Policies

For the year ended 30 June 2006

of the item being hedged. For a derivative instrument to be classified and accounted for as a hedge, it must be highly correlated with, and effective as a hedge of the underlying risk being managed and this relationship must be documented from inception.

Fair value hedges

Where a derivative financial instrument is designated as a hedge of a recognised asset or liability, or a firm commitment, any gain or loss is recognised directly in earnings together with any changes in the fair value of the hedged item.

Cashflow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cashflows of assets or liabilities, or of a highly probable forecasted transaction, the effective part of any gain or loss is recognised directly in the cashflow hedge reserve within equity and the ineffective part of any gain or loss is recognised immediately in earnings. The effective portion is transferred to earnings when the underlying cashflows affect earnings.

Net investment hedges

Where the derivative financial instruments are designated as a hedge of a net investment in a foreign operation, the derivative financial instruments are accounted for similarly to cashflow hedges through the currency translation reserve within equity.

Derivatives that do not qualify for hedge accounting

Where a derivatives financial instrument does not qualify for hedge accounting, or where hedge accounting has not been elected, any gain or loss is recognised directly in earnings.

Taxation

The provision for current tax is the estimated amount due for payment during the next 12 months by the company. The provision for deferred taxation has been calculated using the balance sheet liability method. Deferred tax is recognised on the temporary difference between the carrying amount of assets and liabilities and their taxable value.

Deferred tax assets are not recognised unless recovery is considered probable.

Borrowings

Interest bearing borrowings are initially recognised at fair value, less any transaction costs which are amortised over the period of the loans.

Creditors

Trade creditors and other liabilities are stated at cost or the estimated liability where accrued.

Provisions

A provision is recognised when the company has a current obligation and it is probable that economic benefits will be required to settle this.

Statement of Accounting Policies

For the year ended 30 June 2006

Equity

Share capital

Ordinary shares are classified as shareholders funds. Incremental costs directly attributable to the issue of new shares or options are shown in shareholders funds as a reduction from the proceeds. Dividends are recognised as a liability in the period in which they are declared.

Income determination

Investment revenue

Interest income is taken to earnings when received or accrued in respect of the period for which it was earned. Dividends and distributions are taken to earnings when received or accrued where declared prior to balance date.

Funding costs

Net funding costs comprise interest expense, interest income, amortisation of prepaid expenses and gains/losses on certain financial instruments that are recognised in earnings.

Notes to the Financial Statements

1 Changes in accounting policies

In December 2002, the New Zealand Accounting Standards Review Board announced that New Zealand standards which comply with International Financial Reporting Standards (IFRS) will apply to New Zealand entities for periods commencing 1 January 2007. Entities also have the option of early adoption from 1 January 2005, in line with Australian and European requirements.

The company's financial statements comply with NZ IFRS for the year commencing 1 July 2005. In preparing the financial statements, the company has restated the comparative financial statements, except for financial instruments. As permitted by NZ IFRS 1, the company has adopted IAS 32 and IAS 39 "Financial Instruments" prospectively from 1 July 2005, and comparative balances have not been restated. There has been no impact on the financial statements in complying with IAS 32 and IAS 39 from 1 July 2005.

There has been no change to the earnings statement, the statement of cashflows or the statement of movements in equity. The company has reclassified prepaid borrowing costs of $2,567,527 at June 2005 in the balance sheet against the capital notes liability, rather than being shown as a separate asset as previously treated under NZ GAAP.

The International Accounting Standards Board has issued a number of standards, amendments and interpretations which are not yet effective. The company has not yet applied these and the application of these standards, amendments and interpretations is not expected to have a material impact on the company's results but will require further disclosures.

There have been no other changes in accounting policy in the year ended 30 June 2006, however certain comparatives were restated to conform with the current year's presentation.

2 Investment income

Investment income includes interest received from related companies:

	Year Ended June 2006 NZ$	Year Ended June 2005 NZ$
Fletcher Building Limited	**16,031,899**	17,480,428
Fletcher Building (Australia) Pty Limited	**90,631,838**	58,346,894
	106,663,737	75,827,322

Notes to the Financial Statements

3 Funding costs

	Year Ended June 2006 NZ$	Year Ended June 2005 NZ$
Interest payable on:		
Term debt	**17,952,684**	16,806,337
Capital notes interest	**12,993,325**	12,985,932
Interest paid to related companies:		
Fletcher Building (Australia) Finance Pty Limited	**24,200,378**	21,420,364
Fletcher Challenge Investments Overseas Limited	**42,006,145**	16,042,603
Income from short-term deposits	**(575,748)**	(8,453)
	96,576,784	67,246,783
Plus bank fees, share registry and issue expenses	**950,919**	1,008,405
	97,527,703	68,255,188

Notes to the Financial Statements

4 Taxation expense

	Year Ended June 2006 NZ$	Year Ended June 2005 NZ$
Earnings before taxation:		
New Zealand	**2,662,395**	4,053,309
Overseas	**5,978,962**	3,145,272
	8,641,357	7,198,581
Taxation at 33 cents per dollar	**(2,851,648)**	(2,375,532)
Adjusted for:		
Tax rate adjustment	**179,369**	94,105
Tax in respect of prior years	**69,221**	
Foreign dividend withholding tax payable	**(30,393,431)**	(18,318,849)
Non assessable income	**28,058,857**	18,191,426
	(4,937,632)	(2,408,850)
Current taxation:		
New Zealand	**(3,213,165)**	(1,431,529)
Overseas	**(1,724,467)**	(977,321)
	(4,937,632)	(2,408,850)
Shareholder tax credits		
Dividend withholding payment credit account:		
Dividend withholding payment credits at the beginning of the year	**1,520,940**	89,996
Dividend withholding payment credits received from taxation payments	**33,714,434**	15,221,989
Dividend withholding payment credits attached to dividends paid	**(35,235,374)**	(13,791,045)
		1,520,940

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Notes to the Financial Statements

5 Capital

	Year Ended June 2006 NZ$	Year Ended June 2005 NZ$
Reported capital:		
Reported capital at the beginning of the year	**80,000,000**	50,000,000
Issue of shares	**70,000,000**	30,000,000
	150,000,000	80,000,000

	Year Ended June 2006	Year Ended June 2005
Number of shares:		
Number of shares at the beginning of the year	**80,000,000**	50,000,000
Issue of shares	**70,000,000**	30,000,000
	150,000,000	80,000,000

All ordinary shares carry equal rights in respect of voting, dividend payments and distribution upon winding up.

6 Reserve movements

	Year Ended June 2006 NZ$	Year Ended June 2005 NZ$
Reserves at the beginning of the year	**(50,434,529)**	(27,224,717)
Net earnings	**3,703,725**	4,789,731
Dividend paid to Fletcher Building Limited	**(73,000,000)**	(28,000,000)
Net currency translations	**1,048,948**	457
	(118,681,856)	(50,434,529)

Notes to the Financial Statements

	June 2006 NZ$	June 2005 NZ$
7 Reserve balances		
Reserves comprise:		
Revenue reserves	**(122,693,426)**	(53,397,151)
Net currency translation	**4,011,570**	2,962,622
	(118,681,856)	(50,434,529)

8 Provision for current taxation

	June 2006 NZ$	June 2005 NZ$
Opening provision for taxation	**8,768,329**	(6,439,874)
Currency translation	**(173,752)**	(924)
Taxation in the earnings statement	**(4,937,632)**	(2,408,850)
Taxation in reserves	**75,351,873**	(1,015,743)
Intercompany payment	**(15,835,300)**	2,965,227
Net taxation payments	**34,023,178**	15,668,493
	97,196,696	8,768,329

Notes to the Financial Statements

9 Capital notes

Capital notes	Coupon	Election date	June 2006 NZ$	June 2005 NZ$
Series 2008	8.60%	15 March 2008	**112,670,000**	112,670,000
Series 2010	8.85%	15 March 2010	**37,330,000**	37,330,000
Prepaid expenses			**(1,126,288)**	(2,567,527)
			148,873,712	147,432,473

Capital notes are long-term fixed rate unsecured subordinated notes. On each election date, the coupon rate and term to the next election date of that series of the capital notes will be reset. Holders may then choose either to keep their capital notes on the new terms or to convert the principal amount and any accrued but unpaid interest into shares of Fletcher Building Limited, at approximately 98 percent of the current market price. Instead of Fletcher Building Limited issuing shares to holders who choose to convert, Fletcher Building Finance Limited may, at its option, purchase or redeem the capital notes for cash at the principal amount plus any accrued but unpaid interest.

If interest is not paid when due it is compounded on each subsequent interest payment date at the same rate as applicable to the principal of the capital notes. Non payment of interest does not constitute a default by the company or Fletcher Building Limited. However, each of the company and Fletcher Building Limited have covenanted not to pay dividends on, or make any distribution in respect of, in the case of the company, its ordinary shares, and in the case of Fletcher Building Limited, Fletcher Building shares, while any interest payments on the capital notes which have not been paid on the due date remain outstanding.

The capital notes do not carry voting rights and do not participate in any change in value of the issued shares of Fletcher Building Limited.

If the principal amount of the capital notes were to be converted to shares, 16.7 million (June 2005 22.2 million) Fletcher Building Limited shares would be issued at the share price as at 30 June 2006, of $9.15 (June 2005 $6.91).

Notes to the Financial Statements

10 Term debt

	June 2006 NZ$	June 2005 NZ$
Loans subject to the negative pledge		
Floating loans	**313,264,807**	279,171,210
	313,264,807	279,171,210

Summary of repayment terms and interest rates by repayment period

	June 2006 NZ$	June 2006 Int. Rate %	June 2005 NZ$	June 2005 Int. Rate %
Due for repayment:				
within one year				
within two years				
within three years	**264,317,181**	**6.50**	235,550,708	6.13
within four years				
within five years	**48,947,626**	**6.58**	43,620,502	6.13
after five years				
	313,264,807	**6.51**	279,171,210	6.13

Credit rating
The company has not sought and does not hold a credit rating from an accredited rating agency.

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Notes to the Financial Statements

11 Financial instruments

Exposures to currency and interest rate risks arise in the normal course of the company's business. To manage and limit the effects of these financial risks the company operates within the following policies and utilises the following financial instruments.

Management policies
The company does not enter into derivative financial instruments for trading or speculative purposes.

Currency balance sheet risk
There is no foreign exchange exposure to balance sheet currency risk as the assets and liabilities are naturally hedged. The company has entered into currency forwards and swaps to hedge the taxation exposure arising from the translation of the Australian operations for up to three years. The gains and losses on these instruments are taken to the currency translation reserve.

Currency trade risk
It is company policy that no currency exchange risk may be entered into or allowed to remain outstanding should it arise on trade transactions. The company has no trade transactions.

Interest rate risk
The company is a wholly owned subsidiary of Fletcher Building Limited and does not have an independent policy regarding interest rate risk but complies with the group policy. It is group policy to manage the fixed interest rate ratio on its debt and capital notes portfolio within the range of 40 to 70 percent. The position in this range is managed depending upon underlying interest rate exposures and economic conditions.

Credit risk and liquidity risk
The company is a wholly owned subsidiary of Fletcher Building Limited and does not have an independent position regarding credit risk and liquidity risk. The company only has credit risk exposure to the Fletcher Building group and has no external credit risk exposure. Liquidity risk is the risk that the company will encounter difficulty in meeting its financial commitments as they fall due. The company manages its liquidity risk by having a spread of maturity dates of the company's debt facilities. Furthermore at 30 June 2006, the Fletcher Building group had $1,267 million of committed bank facilities of which $577 million was undrawn (June 2005 $1,242 million; $403 million).

Notes to the Financial Statements

11 Financial instruments continued

Outstanding derivative transactions

Financial instruments are used as a means of reducing exposure to fluctuations in foreign exchange rates and interest rates. While these financial instruments are subject to the risk of market rates changing subsequent to acquisition, such changes would generally be offset with an opposite effect on the items being hedged. The principal or contract amounts of forward exchange contracts and financial instruments for the company are as follows:

	June 2006 NZ$	June 2005 NZ$
Principal or contract amount:		
Currency forward exchange contracts		
To pay	**689,692,533**	614,640,901
To receive	**(689,703,508)**	(614,640,901)
Gain accrued at year end	**(10,975)**	

The cash settlement amounts of these instruments, if they had settled on 30 June 2006, approximates the principal or contract amount.

Notes to the Financial Statements

11 Financial instruments continued

Interest rate repricing

The following tables set out the interest rate repricing profile and weighted average interest rate of the company's income earning financial assets and liabilities by the total portfolio and class of assets. Creditors, debtors and investments are not interest rate sensitive and these are not included in the tables.

Total portfolio	June 2006 NZ$	June 2006 Int. Rate %	June 2005 NZ$	June 2005 Int. Rate %
Interest rate repriced: (including average interest rate)				
within one year	**313,264,807**	**6.51**	279,171,210	6.13
within two years	**112,670,000**	**8.60**		
within three years			112,670,000	8.60
within four years	**37,330,000**	**8.85**		
within five years			37,330,000	8.85
after five years				
	463,264,807	**7.21**	429,171,210	7.01

Asset class

June 2006	Interest Rate %	Floating NZ$	Fixed up to One Year NZ$	Fixed One to Five Years NZ$	Fixed over Five Years NZ$	Total NZ$
Bank loans – Australian dollars	**6.51**	**313,264,807**				**313,264,807**
Term debt	**6.51**	**313,264,807**				**313,264,807**
Amounts owing to related companies	**6.42**	**1,088,056,982**				**1,088,056,982**
Amounts owing by related companies	**6.96**	**(88,639,084)**	**(1,401,534,741)**			**(1,490,173,825)**
Cash and liquid deposits	**4.00**	**(2,417)**				**(2,417)**
Capital notes	**8.66**			**150,000,000**		**150,000,000**
	6.80	**1,312,680,288**	**(1,401,534,741)**	**150,000,000**		**61,145,547**

Notes to the Financial Statements

11 Financial instruments continued

Asset class

June 2005	Interest Rate %	Floating NZ$	Fixed up to One Year NZ$	Fixed One to Five Years NZ$	Fixed over Five Years NZ$	Total NZ$
Bank loans – Australian dollars	6.13	279,171,210				279,171,210
Term debt	6.13	279,171,210				279,171,210
Amounts owing to related companies	6.77	983,018,671				983,018,671
Amounts owing by related companies	7.21	(188,327,989)	(1,249,001,298)			(1,437,329,287)
Cash and liquid deposits	4.00	(571)				(571)
Capital notes	8.66			150,000,000		150,000,000
	7.18	1,073,861,321	(1,249,001,298)	150,000,000		(25,139,977)

Notes to the Financial Statements

11 Financial instruments continued

Fair values

The estimated fair values of the company's financial assets and liabilities compared to their carrying values are as follows:

	June 2006 Carrying value NZ$	June 2006 Fair value NZ$	June 2005 Carrying value NZ$	June 2005 Fair value NZ$
Debtors	**1,219**	**1,219**		
Accrued interest	**(5,765,065)**	**(5,765,065)**	(5,760,095)	(5,760,095)
Creditors	**(95,447)**	**(95,447)**	(1,150,267)	(1,150,267)
Cash and liquid deposits	**2,417**	**2,417**	571	571
Capital notes	**(150,000,000)**	**(151,954,088)**	(150,000,000)	(153,360,274)
Bank loans	**(313,264,807)**	**(313,264,807)**	(279,171,210)	(279,171,210)
Amounts owing to related companies	**(1,088,056,982)**	**(1,088,056,982)**	(983,018,671)	(983,018,671)
Amounts owing by related companies	**1,490,173,825**	**1,490,173,825**	1,437,329,287	1,437,329,287

The carrying values are different from the fair values for the capital notes and currency forward exchange contracts when valued using rates at balance date. The fair value of derivative financial instruments is estimated based on the quoted or estimated market prices of those instruments. The fair value of interest bearing loans are based on the net present value of the future principal and interest cashflows. The fair value of debtors, cash and liquid deposits, creditors and accrued interest, and loans to and from related companies is deemed to be the carrying amount. For interest bearing loans and interest rate derivatives the government stock or swap interest rate curves at balance date in the appropriate currency plus an applicable margin are used.

Notes to the Financial Statements

12 Contingent liabilities and capital commitments

There were no contingent liabilities or capital commitments as at 30 June 2006 (June 2005 nil).

The Fletcher Building group borrows funds based on covenants and a negative pledge and guarantee arrangement. The principal borrowing covenants relate to gearing, interest cover and minimum net tangible assets and at 30 June 2006, the Fletcher Building group was in compliance with all its covenants. The negative pledge ensures that external senior indebtedness ranks equally in all respects and includes the covenant that security can be given only in very limited circumstances. The guarantee states that Fletcher Building and certain of its subsidiaries, including Fletcher Building Finance Limited, guarantee the debt of the group that has the benefit of the negative pledge and guarantee.

As at 30 June 2006 the guaranteeing group had debt subject to the negative pledge and guarantee and covenants of $628 million (June 2005 $798 million).

Where the company enters into financial guarantee contracts to guarantee the performance or indebtness of other companies within the group, the company considers these to be insurance arrangements and accounts for them as such. In this respect, the company treats the guarantee contract as a contingent liability until such time as it becomes probable that the company will be required to make a payment under the guarantee.

Notes to the Financial Statements

13 Related party transactions

The company is a wholly owned subsidiary of Fletcher Building Limited, which is also the ultimate holding company. All other related companies are also subsidiaries of Fletcher Building Limited.

	June 2006 NZ$	June 2005 NZ$
Term receivable owing from related companies		
Fletcher Building Limited [1]	**77,051,427**	170,026,772
Fletcher Building (Australia) Pty Limited [2]	**1,401,534,741**	1,249,001,298
Fletcher Building (Australia) Pty Limited [3]	**11,587,657**	18,301,217
	1,490,173,825	1,437,329,287
Term payable owing to related companies		
Fletcher Challenge Investments Overseas Limited [4]	**665,073,431**	629,660,538
Fletcher Building (Australia) Finance Pty Limited [4]	**422,983,551**	353,358,133
	1,088,056,982	983,018,671

[1] This unsecured advance represents long term funding even though it is for no fixed term and bears interest at 9.75% (June 2005 9.75%).

[2] This advance represents 1,145,334,190 (June 2005 1,145,334,190) fixed rate debentures of Australian $1.00 each and each tranche has a five year term from the date of issue, but may be repaid earlier by the borrower. The debentures are due for repayment on; 19 December 2007, 489,000,000; 30 September 2008, 115,000,000 and 1 March 2010, 541,334,190. The advance is secured by a guarantee provided by Fletcher Building Holdings Limited. As at 30 June 2006 the interest rate was 6.805% (June 2005 7.2125%).

[3] This unsecured advance represents long term funding even though it is for no fixed term and bears interest at 7.0% (June 2005 6.7675%).

[4] These advances represent long term funding. They are unsecured and for a fixed term to 31 March 2007. The company will seek to renew these for a further fixed term. As at 30 June 2006 the interest rate was 6.42% (June 2005 6.7675%).

Notes to the Financial Statements

14 Segmental information

The company is a finance company and operates in New Zealand and Australia.

Geographical segments	New Zealand NZ$ June 2006	Australia NZ$ June 2006	Total NZ$ June 2006
Investment income	**16,031,899**	**90,631,838**	**106,663,737**
Earnings before taxation	**2,662,395**	**5,978,962**	**8,641,357**
Total assets	**176,172,303**	**1,411,201,854**	**1,587,374,157**
	June 2005	June 2005	June 2005
Investment income	17,480,428	58,346,894	75,827,322
Earnings before taxation	4,053,309	3,145,272	7,198,581
Total assets	179,127,930	1,266,970,257	1,446,098,187

Audit Report

KPMG

To the shareholder of Fletcher Building Finance Limited

We have audited the financial statements set out on pages 4 to 27. The financial statements provide information about the past financial performance of the company and its financial position as at 30 June 2006. This information is stated in accordance with the accounting policies set out on pages 9 to 12.

Directors' responsibilities

The directors are responsible for the preparation of financial statements which give a true and fair view of the financial position of the company as at 30 June 2006 and the results of its operations and cash flows for the year ended on that date.

Auditor's responsibilities

It is our responsibility to express an independent opinion on the financial statements presented by the directors and report our opinion to you.

Basis of opinion

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

– the significant estimates and judgments made by the directors in the preparation of the financial statements;

– whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We conducted our audit in accordance with New Zealand Auditing Standards. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to obtain reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Our firm has also provided other services to the company in relation to taxation and general accounting services. These matters have not impaired our independence as auditors of the company. The firm has no other relationship with, or interest in, the company.

Unqualified opinion

We have obtained all the information and explanations we have required. In our opinion:

– proper accounting records have been kept by the company as far as appears from our examination of those records;

– the financial statements on pages 4 to 27;

  - comply with New Zealand generally accepted accounting practice;
  - give a true and fair view of the financial position of the company as at 30 June 2006 and the results of its operations and cash flows for the year ended on that date.

Our audit was completed on 9 August 2006 and our unqualified opinion is expressed as at that date.

KPMG Auckland, New Zealand

Noteholder Information

Noteholders with enquiries about transactions or changes of address should contact:

Computershare Investor Services Limited, Private Bag 92 119, Auckland 1142, New Zealand
Level 2, 159 Hurstmere Road, Takapuna, North Shore 0622, New Zealand
Tel: +64 9 488 8777, Fax: +64 9 488 8787

Other investor enquiries

Fletcher Building Finance Limited, Private Bag 92 114, Auckland 1142, New Zealand
Tel: +64 9 525 9000, Fax: +64 9 525 9032, Email: moreinfo@fb.co.nz Website: www.fletcherbuilding.com

Interest payment dates

Interest on capital notes is paid semi-annually on 15 March and 15 September. The company recommends that all noteholders have their interest payments direct credited to their bank account to ensure security and promptness of receipt. If you do not already have your payments direct credited, please contact Computershare Investor Services to register your bank account details.

Quotation and transfers

The Fletcher Building Finance capital notes are quoted on the New Zealand Exchange under codes FBF010 and FBF020 and may be bought and sold through sharebrokers. No transfer will be registered if it would result in the transferor or the transferee holding capital notes with an aggregate principal amount of less than $5,000. Subject to this minimum holding, transfers must be in multiples of $1,000.

Fletcher Building website

Details on Fletcher Building and its operations for the year ended 30 June 2006 can be viewed on its website, at www.fletcherbuilding.com.
It contains all news releases to the New Zealand Exchange and financial presentations made by Fletcher Building.

Other information

The New Zealand Exchange has granted a waiver to the company from Listing Rule 10.5 – Annual and Half-Yearly Reports, subject to the following conditions:

a) that the company send copies of the annual and half-yearly reports of Fletcher Building (with financial information relating to the Fletcher Building Group) to its noteholders,

b) that the company's annual report include any specific relevant disclosures required by the Companies Act 1993 and certain sections of Listing Rule 10.5, and

c) that the Fletcher Building annual report contain details of the spread of the company's noteholders and the corporate governance policies, practices and processes.

Directory

Directors

Roderick S Deane	Chairman
Paul E A Baines	Chair of the Audit Committee
Hugh A Fletcher	Member of the Audit Committee
Jonathan P Ling	Appointed with effect from 1 September 2006
Geoffrey J McGrath	
Sir Dryden Spring	
Kerrin M Vautier	Member of the Audit Committee
Ralph G Waters	Chief Executive Officer and Managing Director

Management

Martin C Farrell	Company Secretary
Bill J Roest	Chief Financial Officer
Don Le Quesne	Australian Branch Manager

Registered Offices

New Zealand	Fletcher Building Finance Limited, Private Bag 92 114, Auckland 1142, New Zealand Fletcher House, 810 Great South Road, Penrose, Auckland 1061, New Zealand Tel: +64 9 525 9000
Australia	Fletcher Building Finance Limited, Locked Bag 7013, Chatswood DC, NSW 2067, Australia Level 5, Tower A, Zenith Centre, 821 Pacific Highway, Chatswood, NSW 2067, Australia Tel: +61 2 9928 3532, ARBN 102 568 178

Trustee

The capital notes are constituted under a Trust Deed dated 12 November 2002 and noteholders are entitled to the benefit of, are bound by, and are deemed to have notice of the provisions of the Trust Deed.

The Trustee is:	Perpetual Trust Limited, PO Box 3376, Auckland 1140, New Zealand Level 17, HSBC Centre, 1 Queen Street, Auckland 1010, New Zealand Tel: +64 9 366 3290