# 2006
Annual Report

FletcherBuilding

**Fletcher**Building

**2006** Annual Report

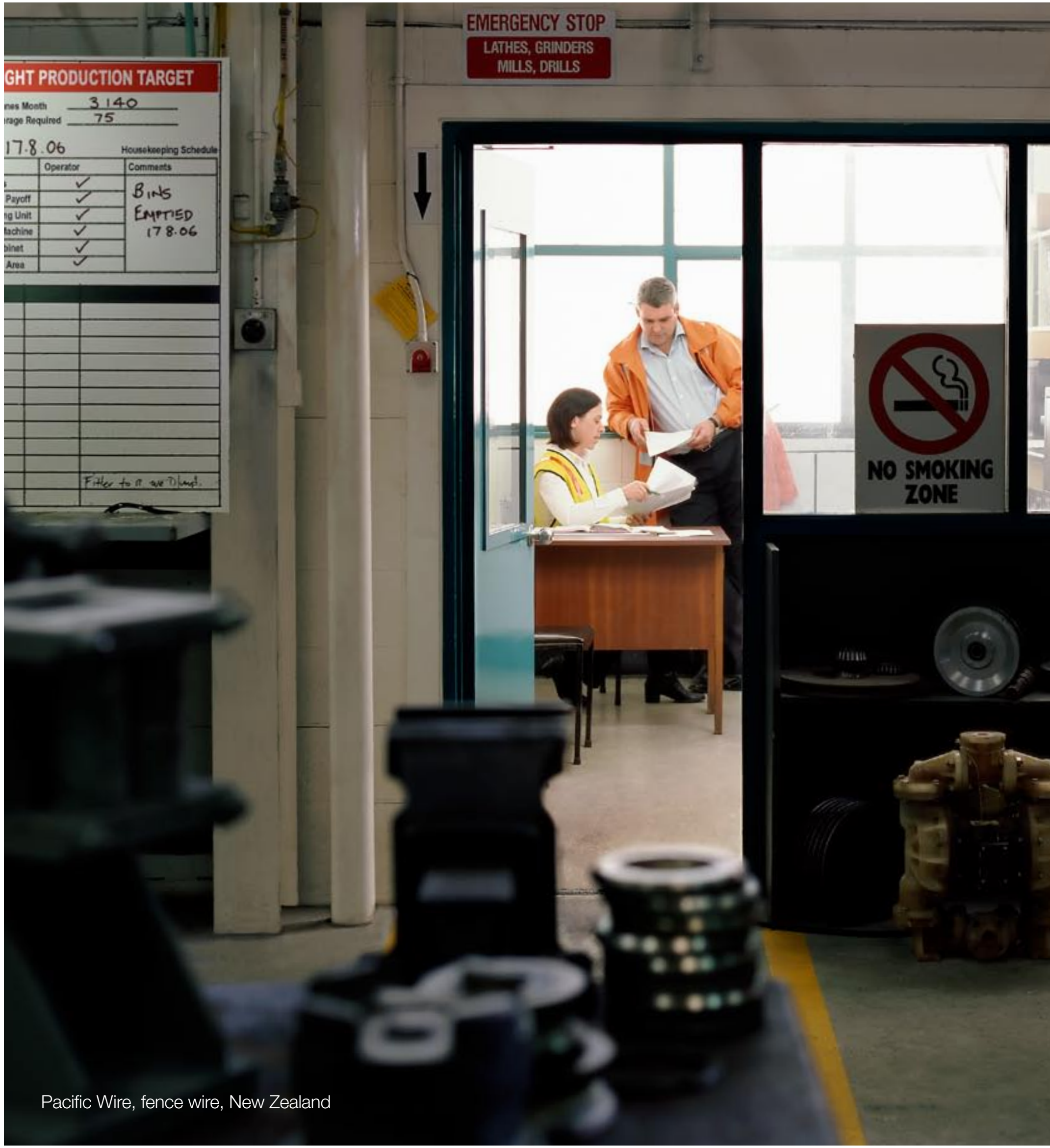



Stramit, steel building products, Australia

Some things changed during the year – we got a new chief executive, to start with – but we're more excited about the things that stayed the same.

**FletcherBuilding**
**2006** Annual Report





Pacific Wire, fence wire, New Zealand

**Our factories, project sites and offices kept to a well-established routine – opening early, staying open until late – and our customers counted on us to enhance their living and working environments. Predictable, reliable, valuable.**

**FletcherBuilding**
**2006** Annual Report



## Just another year, then. We're looking forward to more of the same.

Winstone Wallboards, gypsum wallboards, New Zealand

# Highlights

## Another year of record profits, with net earnings after tax up 9 percent to $379 million.

Ninth consecutive dividend increase, to total 40 cents per share for the year **– up 25 percent.**

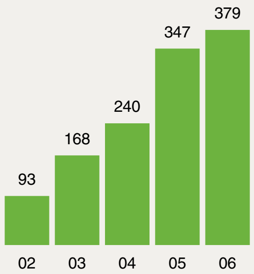
Total shareholder return of **40 percent** for the year, and an annual compound rate of return of 29 percent since listing in 2001.

Cashflow from operations again strong at **$560 million.**

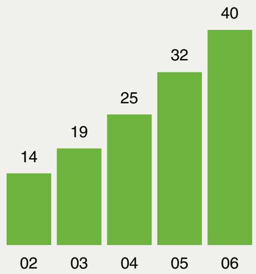
Senior management succession implemented successfully, with the appointment of **Jonathan Ling to succeed Ralph Waters** as chief executive.

**Gearing of 37 percent,** leaving the group well positioned for acquisition opportunities and internal growth.

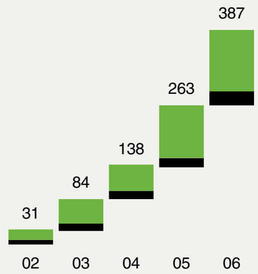
**Another satisfactory result expected next year,** with exposure to commercial and infrastructure markets in New Zealand and Australia forecast to offset the softening in housing markets.




**Net earnings**
NZ$ Millions




**Dividends**
Cents per share




**Cumulative total shareholder return**
Percentage

Share price appreciation   Dividends

# Chairman's Report

## Results

The company is able once again to report record earnings and increased dividends. Our net earnings after tax for the year to 30 June 2006 were $379 million, up 9 percent on the previous year.

Whilst the rate of earnings growth was lower than in the four prior years, it was a pleasing result given the somewhat softer markets for residential construction in both New Zealand and Australia and the high base from which the growth is measured. In years past, a slowdown of the same magnitude in residential construction would have resulted in a material decline in earnings. However, as each annual report since becoming a stand-alone company in March 2001 has noted, our primary strategic objective has been to improve the reliability of the company's earnings through the cycle. This year's result is clear evidence that our strategic decisions in that regard have been successful. In aggregate, demand for the company's products probably peaked in 2004, so there have now been two years of softening demand, yet aided by our further investments in Australia, net earnings after tax have grown from $240 million in 2004 to $347 million in 2005 and now to $379 million this year.

It is true that strong activity in both commercial building and infrastructure also compensated for the softer residential markets; however, it is largely because of the three major acquisitions in Australia that the company's dependence on New Zealand residential construction demand is now markedly lower than it was in years past. The broader geographic spread of activities has made the company less dependent on any one segment. Within Australia, for example, the depressed level of residential activity in New South Wales has been compensated by the extraordinary strength of the Western Australian market. It is now clear that the company has a very favourable balance between residential, commercial and infrastructure business across New Zealand, Eastern Australia and Western Australia which should continue to provide a high degree of earnings reliability despite the cyclical nature of this industry.

## Dividend

Directors approved the ninth consecutive dividend increase when declaring a final dividend of 21 cents per share. The interim dividend was 19 cents per share, and thus the total dividend for the year is 40 cents per share, up 25 percent from 32 cents in the previous year.

As was noted in the December 2005 half year review, the tax crediting of dividends has changed from that available in prior years. The company has a mix of New Zealand dividend withholding payment and imputation credits and supplementary dividends for non-resident shareholders. We have not attached franking credits for Australian resident shareholders for this dividend, but will do so in future when the level of accumulated franking credits increases to a high percentage. While all this adds to the complexity of our dividend disclosures, we continue to ensure that we maximise the after-tax return of all of our shareholders from dividends paid. Further details are available in the Investor Information section of this annual report.

## Succession

A major issue for directors this year was the selection of a new chief executive to succeed Ralph Waters, who retired on 31 August 2006. Ralph had given the board long notice of his preferred retirement date, such that a comprehensive succession process could be undertaken. An international search was completed, with strong internal and external candidates being interviewed. By the completion of the rigorous selection process the directors were all in accord with the decision to appoint Jonathan Ling.

Jonathan had been chief executive of Fletcher Building's Laminates & Panels division since joining the company in 2003. He is 52 years old, has a mechanical engineering degree from Melbourne University and a Master of Business Administration degree from RMIT University, and has had an extensive career in the manufacturing industry. The board was keen to preserve the excellent culture that now exists within Fletcher Building and is thus delighted that one of the existing senior management team proved the best candidate for the position.

## Directorate

It is appropriate for me to record the board's warmest appreciation of Ralph Waters' huge contribution to the success of the company during his five years as chief executive. He has provided leadership of a rare standard, and ends his term with an outstanding record of growth and shareholder returns. We are delighted that he has agreed to remain on the board as a non-executive director from 1 September 2006.

Last year we noted the resignation of Ralph Norris following his appointment as chief executive of the Commonwealth Bank of Australia. At that time the board did not appoint a replacement director. With Ralph Waters remaining on the board, we will have two Australia-based directors, which is appropriate given the extent of the company's activities there.

Jonathan Ling has also been appointed to the board with effect from 1 September, coinciding with his appointment as chief executive. Both Ralph and Jonathan will stand for re-election at this year's annual shareholders' meeting.

## People

Over 15,500 employees now work for Fletcher Building world-wide. Recent staff survey results reflect high levels of employee engagement and satisfaction – and pride in the company, its culture and values. In turn, our people's commitment, expertise and energy are the foundations of the past year's success and the company's future sustainability. On behalf of the board, I extend our thanks to all our people. We thank also our customers, suppliers and advisors for their valued contribution to the company's success.

**Outlook**

Residential markets are continuing to slow in New Zealand, albeit from record high levels, and the Australian states that slowed in the 2005 year have not yet shown signs of an upturn. Nevertheless, while Fletcher Building expects more subdued trading in the 2007 year, the strength of non-residential construction and infrastructure development in both countries should enable it to report another satisfactory result for the year to June 2007.

**Roderick Deane** Chairman

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

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

"Whilst the rate of earnings growth was lower than in the four prior years, it was a pleasing result given the somewhat softer markets for residential construction in both New Zealand and Australia and the high base from which the growth is measured."

# Chief Executive's Report

## The year to June 2006 was our fifth full year of operation as a separately listed company, since that event occurred on 23 March 2001, and my last as chief executive. Another record profit continued the strong earnings growth over that period.

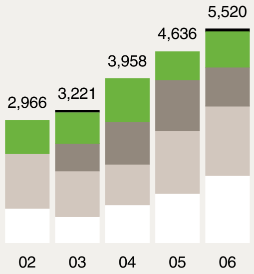
Of particular significance this year is that further earnings growth was achieved despite appreciably softer demand in one of our key segments, residential construction, in New Zealand and Eastern Australia. Also, the significant benefits from rapidly increasing steel prices which aided the 2005 result were not available this year, and in fact there were negative implications as steel prices declined in the first half. The strategic diversification of both our geographic and market segment profiles through three major Australian acquisitions over the past four years has thus been vindicated. Beyond that, the continued improvement in performance by most business units through efficiency gains, capacity expansions or market share growth has been vital to our five years of strongly increasing earnings.

**Results**

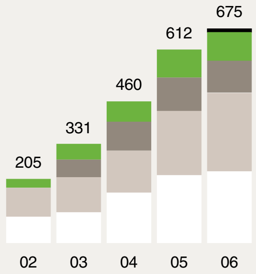
Net earnings were $379 million, a 9 percent improvement compared to $347 million in the preceding year. These figures are based on the new International Financial Reporting Standards (IFRS) which have been adopted this year for the first time. The previous year's result has been restated to the same basis, lifting that year's profit from the previously reported $330 million to $347 million. Earnings per share were 81 cents in the 2006 year compared to 78 cents in the previous year. Operating earnings – that is, earnings before interest and tax – were $675 million compared to $612 million. Operating earnings include the benefit of an additional eight months ownership of Amatek, purchased in 2005 and included for only four months of the previous year.

Infrastructure was the standout divisional performer this year. Operating earnings in that division were $255 million, a 30 percent improvement on the previous year's $196 million, which was a 44 percent improvement on the year before that. This is clear evidence of the increasing importance of non-residential construction to the company's earnings. Building Products' earnings of $235 million were slightly ahead of the previous year's $227 million, but without the eight months incremental benefit of two of the Amatek business units there would have been a small decline. As noted, however, this year's results did not enjoy a repeat of the previous year's one-off steel stock revaluation benefits. Distribution, which is overwhelmingly dependent on New Zealand residential construction, had a 7.5 percent decline in earnings from the previous year's exceptional $81 million. Laminates & Panels, which has predominantly Australian sourced revenue, improved earnings by 8.4 percent to $116 million, a creditable performance in a mixed Australian market.

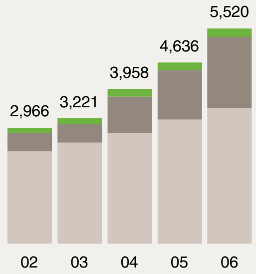
In a record year there are, of course, quite a number of business units which recorded their best ever earnings. With more than 30 stand-alone business units there are too many to record all the good results, but year-on-year improvers worthy of particular mention include Fletcher Residential, all Fletcher Construction units, Winstone Aggregates, Humes and Stramit.




**Sales/revenue by division**
NZ$ Millions
Note: Net of intercompany transactions
Other, Distribution, Laminates & Panels, Building Products




**Operating earnings by division**
NZ$ Millions
Note: Net of intercompany transactions and pre-unusuals




**Sales/revenue by geography**
NZ$ Millions
Note: Net of intercompany transactions
Other, New Zealand, Australia

Cashflow from operations was again strong at $560 million, some $81 million up on the previous year. Capital expenditure was $260 million and gearing reduced from 44.4 percent as at 30 June 2005 to 37.1 percent this year.

## Returns

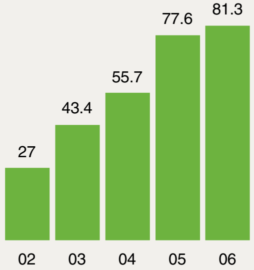
Total shareholder return – share price appreciation plus the amount of gross dividends including tax credits – was 40 percent. This brings the TSR since listing to 387 percent, which implies a compound annual rate of return of 29 percent over that period.

Return on average funds employed was 26.1 percent, down a little from the previous year's 29.3 percent but still significantly above the pre-tax cost of capital, which is of the order of 15 percent. In the 2006 year, the company generated around $190 million of EVA (Economic Value Added), which is the return on capital over and above the theoretical cost of capital.

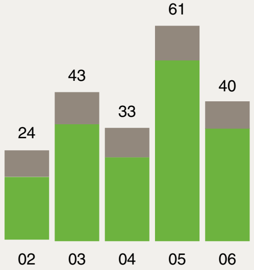
The high levels of EVA generated each year have provided significant impetus to the increasing share price and dividends enjoyed by shareholders. Corporate executives' annual bonus entitlements are principally tied to the company's EVA performance.

## Acquisitions

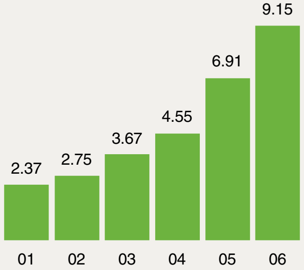
The company did not make any large acquisitions during the year, but the Dunedin-based O'Brien's Group was acquired on 1 May 2006. O'Brien's




**Earnings per share**
Cents




**Annual total shareholder return**
Percentage




**Share price since listing**
As at 30 June NZ$

is a significant manufacturer of prefabricated benchtops for domestic and commercial applications, generating annual revenues in the order of $25 million. The business has more than 200 employees, and operates from manufacturing facilities in Dunedin and finishing, warehouse and distribution facilities in a number of main centres in the North and South Islands of New Zealand.

Due diligence was also conducted on two other, larger, acquisition opportunities. We were not successful on one, while negotiations have slowed on the other. There is an increasing incidence in acquisitions of competition from private equity funds which, despite lacking the synergy benefits available to trade buyers like Fletcher Building, pay prices well beyond those that accord with our own acquisition criteria. This has resulted in the company looking more seriously at options outside New Zealand and Australia, especially where we have the opportunity to negotiate exclusively. With my term as chief executive now concluding, it is appropriate that I leave the responsibility of commenting on some forward-looking matters to my successor. Accordingly Jonathan Ling comments on the company's strategic options and growth outlook in the following pages of this annual report.

**Health and safety**

Recognising the hazardous nature of our operations, we do our utmost to protect the health, safety and wellbeing of our employees. Through clear management accountability, binding policies and innovative communication programmes, we strive for an injury and illness-free workplace. We require all employees and those who work on our behalf to meet our safety standards and to exercise personal responsibility in preventing harm to themselves and others.

It is therefore pleasing to report a 16 percent drop in the lost time injury rate this year, and that since the release of the 2005 annual report we have had no fatalities as a result of a work place accident.

**Developing management capacity**

The quality of our leadership is key to the successful delivery of our strategy and thus to our sustainability. We are fortunate to have a senior leadership group of proven ability, breadth and talent and a promising pool of emerging successors. We work hard to ensure that our leaders at all levels understand what is expected of them and have access to appropriate development opportunities. We are committed to career progression from within, to identify future leaders at all levels and provide a range of programmes to enhance their capabilities. We have cultivated partnerships with universities in New Zealand and Australia to develop innovative learning initiatives and attract candidates of calibre.

**Acknowledgement**

It is both a privilege and a major responsibility to lead any large business, and I have been conscious of these strictures throughout my five years as chief executive. I am pleased that the company has enjoyed success during this time, both as to its financial performance and its enhanced standing in the community. With the support of shareholders I hope to be able to continue making a contribution to Fletcher Building for some years to come.

I am also keenly aware that many people have provided support that has played a significant part in this success. I take this opportunity to thank the directors, the senior managers and many other staff who have been generous with their time, knowledge and advice. I also thank the many shareholders who have taken an informed interest in the affairs of the company – and our customers, who trust us on a daily basis with the responsibility of adding value to their businesses, workplaces and homes.

**Ralph Waters** Chief Executive Officer

"Infrastructure was the standout divisional performer this year. Operating earnings in that division were $255 million… clear evidence of the increasing importance of non-residential construction to the company's earnings."

# Chief Executive's Report

**By the time this annual report is in your hands I will have taken up the role of chief executive of Fletcher Building – and so I welcome this opportunity to comment on the strategic options and approaches now contemplated by the group.**

As part of the senior management team over the past three years I have been actively involved in, and fully committed to, the company's growth strategy. The senior management team has worked effectively and cohesively over this period. It is a source of satisfaction to me, and strength for the company, that it will remain largely intact for the next phase of development.

The past five years have seen substantial achievement by Fletcher Building, built on a three-point strategy driving all decision-making, with the most visible manifestation being a series of significant capital investments. The strategy has been to:

- improve the reliability of earnings
- maintain and improve internal capabilities
- take up external growth options where they meet our acquisition criteria.

Behind the strategy is a range of building-related businesses linked by a vertically integrated structure, strong market positions, ownership of channels to market and a stable of strong and respected brands. I expect that, if we could look five years into the future, we would find that these fundamentals will not have changed.

A key element in implementation has been the expansion of our position in the Australian building industries, reducing our exposure to the risks attending over-reliance on a single economy. Our results over the past year, in particular, have demonstrated the benefits to earnings.

We have also invested in operations across the group to increase production capacity and efficiency, remove constraints and develop new product variations. These expenditures amounted to $144 million during the latest year, bringing the total since 2001 to $2.1 billion.

The core of this strategy is unlikely to change in the near term. The company will remain oriented to growth through a mix of acquisitions and internal investment. The nature of acquisitions might differ in emphasis. For example, as Ralph Waters has signalled earlier in this report, the company is looking more seriously at options outside Australia and New Zealand. We already have businesses operating successfully in the United States, Malaysia, Hong Kong and the Pacific Islands.

In Australia the larger and more geographically diverse marketplace will produce opportunities for new growth. In New Zealand, whilst the range of options is naturally limited by the scope of our existing positions, they exist in market segments where we currently have no, or little, presence. The recent acquisition of Dunedin-based O'Brien's Group, which manufactures prefabricated benchtops, is a case in point.

The group is in a position of financial strength that will enable it to take advantage of appropriate opportunities and commit the resources required for success. This position will be jealously guarded. As has been the case over the past five years, all acquisitions and internal investments will be subject to stringent criteria focused on creation of value.

Perhaps of most importance, we will be seeking to build on the performance-oriented culture developed over recent years, which has been instrumental in the company's success. Core elements in this culture are the identification and strengthening of leadership, training and development to assist all employees to achieve their full potential, and close linkage of financial rewards to the creation of economic value.

This approach allows us to combine the benefits of management continuity at senior levels with the promotion and nurturing of talent. As a tangible example, my own role shift has facilitated others within the wider management group that will enable a number of senior executives to gain new and broader experience. This can only be of benefit in terms of management depth and capability.

Our strategy will unfold against a background of considerable change in markets, but we are confident we will have the broad positioning and culture needed for continued performance. In New Zealand and Australia, it seems likely that the next few years will see continued strength in development of infrastructure, a market where we have built our capability strongly over recent years. Residential and commercial building might be more subject to cyclical influences, but still reasonably good overall, and markets in which we will have opportunities for solid earnings and growth.

My early priorities will be to continue the search for opportunities to extend the company's growth, and particularly in the Australian market, where they are most likely to be of the required scale. I am delighted to have the responsibility of leading the management of Fletcher Building during this next important phase of its development.

**Jonathan Ling** Chief Executive Officer
From 1 September 2006

"The core of this strategy is unlikely to change in the near term. The company will remain oriented to growth through a mix of acquisitions and internal investment."

# Building Products

## A range of market leading positions in New Zealand and Australia, with additional manufacturing in the United States, Malaysia and Hong Kong and growing international sales.

The Building Products division comprises six business streams – insulation, metal roof tiles, roll-forming & coatings, long steel, plasterboard and a single businesses stream comprising four business units. The insulation business is number one by market share in Australasia for glass wool insulation products. Metal roof tiles is the world's leading supplier of steel roof tiles. Roll-forming & coatings has the highest market share in Australasia for steel roll-formed building products. Long steel is New Zealand's sole producer of reinforcing bar, rod and wire. The plasterboard business is the clear market leader in New Zealand. The single businesses stream is involved in sinkware, access flooring, aluminium extrusion and steel merchandising.

### Performance

The division recorded a 4 percent rise in operating earnings to $235 million. This was a pleasing performance given the range of economic factors that affected trading during the year – the decline in activity in the residential new-build segments in Australia and New Zealand; the strong New Zealand dollar experienced for most of the year, which limited both export earnings and the ability to achieve price rises in the domestic market; and the flatter trend in international steel prices, which had risen strongly in the prior year.

In Australia the integration of the acquired Insulation Solutions business with Tasman Insulation continued, the combined business being renamed Fletcher Insulation. Synergies realised in Fletcher Insulation were some 48 percent ahead of that planned, although the Australian market experienced a greater softening than budgeted for. A further unplanned synergy will come from the use of our in-house Intech electric furnace technology when rebuilding the furnace in Dandenong (Victoria) in December 2006. This will reduce the capital cost of the project from around $12 million projected at the time of acquisition to $5.5 million. Overall,

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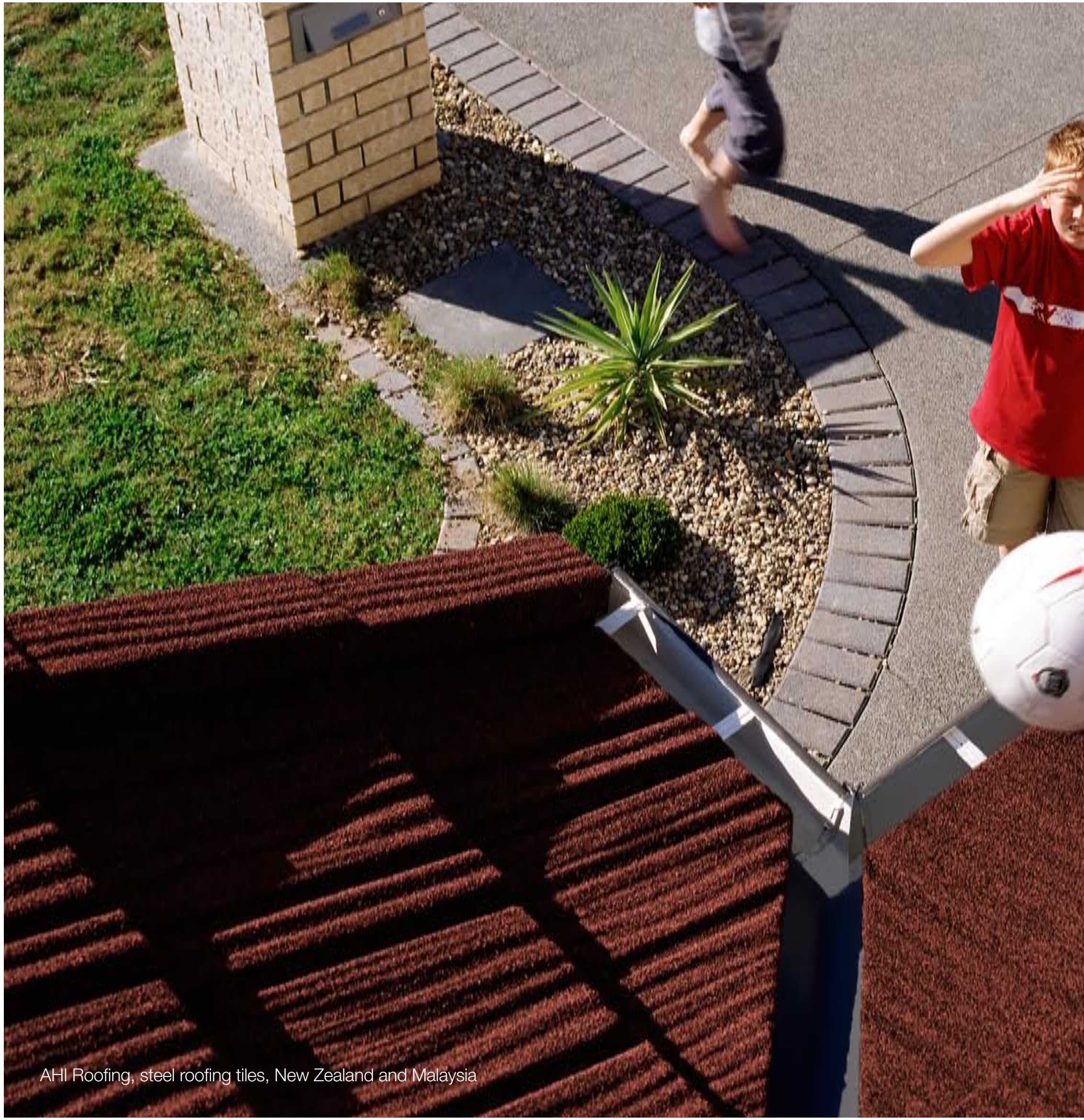


AHI Roofing, steel roofing tiles, New Zealand and Malaysia

# Highlights

Operating earnings **up 4 percent** to $235 million

Significant **increase in earnings** from insulation and roll-forming & coatings businesses

**Completion** of the new Auckland despatch centre for plasterboard

**$52 million** of major capital projects completed successfully

**Reduction in lost time injury frequency rate**, from 11.9 to 6.5 per one million hours worked insulation's operating earnings were 23 percent higher than for the previous year.

The roll-forming businesses of Stramit in Australia and Dimond in New Zealand both performed well. Pacific Coilcoaters, our coil painting business also made a significant contribution to operating earnings. Overall, the roll-forming & coatings businesses had operating earnings 82 percent higher than for the previous year, and 27 percent higher if adjusted for a full year contribution of Stramit in the 2005 year.

The metal roof tiles businesses had a difficult year. The United States operations had exceptional sales volumes during the 2005 year, driven by hailstorm damage in the southern states, which was not repeated this year. The strong New Zealand dollar affected margins on exports from the AHI Roofing plant in Auckland. The operation in Malaysia, purchased in March 2005, performed to expectation and the plant upgrade carried out there was completed below budgeted cost. The metal roof tiles business is still following a "global niche market" strategy, and growth opportunities are being pursued actively.

Despite increased pressure from imports into New Zealand, the plasterboard business maintained its market share at around 95 percent. Earnings fell 3 percent from the record set in the previous year, but on sales volumes 5 percent lower. The new Auckland despatch centre, needed to strengthen the "house lot" ordering and "delivery to site" services, was completed on time and on budget. Expenditure for a similar facility in Christchurch has been approved.

The long steel business could not repeat the previous year's profit performance despite achieving record billet production of 252,000 tonnes. Benefit was earned from high scrap prices through the 50:50 joint venture with Sims Metals, but the high New Zealand dollar and aggressive import competition squeezed margins in the reinforcing bar, rod and wire markets. A capital project to reduce the use of additives in most Pacific Steel products through a quenching and tempering process was completed successfully, but required the mill to close for 10 days.

Amongst the "single business" assets, Tasman Sinkware performed very well against a background of reduced domestic demand. Tasman's export strategy, which has been developing over several years, paid dividends as earnings were only marginally behind those for the previous year. Fletcher Easysteel performed above expectations, albeit not matching the 2005 results, when there was a sustained period of high steel prices.

**Business improvement**

The division's exposure to the New Zealand residential housing cycle has long been recognised, so management has worked to diversify the business base to reduce reliance on this sector. This process will continue as businesses acquired over recent years are grown. For example, most of the growth in the metal roof tiles business has come from overseas.

Many of the division's businesses are well placed to benefit from the rapidly growing focus on energy efficiency in new and existing homes, and in commercial developments. Work being carried out by Beacon Pathway, a research consortium of which Fletcher Building is a member, is beginning to bear fruit through research initiatives on increasing the energy efficiency of existing homes. The division has joined the recently formed Green Building Council of New Zealand to bring the same focus to developments in the commercial market segment.

A range of major capital projects was completed during the year, to a total value of $52 million. These included the installation of a new press handling and management system at Fletcher Aluminium, the quenched and tempered bar and rod project at Pacific Steel, completion of Winstone Wallboards' new Auckland distribution centre, the installation of a new oven at the Decra metal roof tiles plant in the United States, capital equipment to help realise synergies in Fletcher Insulation, a new distribution centre for Easysteel in Christchurch, and completion of the new enterprise resource planning system in Stramit on time and on budget.

**People**

The focus on people development continued, with the Australian operations participating to a far greater extent. The various forums designed to enhance knowledge flow throughout Fletcher Building have been supported enthusiastically. These include the manufacturing and international forums which involve a wide cross section of employees from our businesses.

Fletcher Easysteel came seventh overall in the annual New Zealand-wide "20 Best Places to Work" competition up from fifteenth in the previous year and second in its category of medium sized enterprises.

As part of the focus on people development the division provided courses on English as a second language, leadership, strategic pricing and sales techniques, with funding assistance from the Fletcher Building Employee Educational Fund.

## Health and safety

Building Products recorded a pleasing reduction in its lost time injury frequency rate (LTIFR), from 11.9 to 6.5 per one million hours worked. This meant that 51 lost time injuries were recorded during the year amongst the division's 5,000 employees. This is still an unacceptable number of injuries, but the large majority were minor, requiring the employee to miss no more than one shift. Especially pleasing was Pacific Steel's achievement of a zero LTIFR. The division expects the significant ongoing focus on health and safety to result in a further drop in LTIFR during the current year.

## Environment

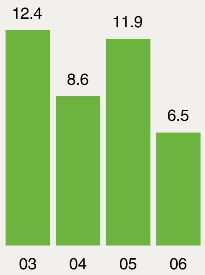
Building Products' operations maintained active compliance with relevant environmental legislation. There were no material breaches during the year, for the fifth successive year.

Business units are seeking opportunities in energy efficiency over and above participation in Beacon Pathway and the Green Building Council. Reprocessing waste streams also continues to be a focus. In addition to the scrap metal reprocessed

**Results**

| NZ$ Millions | June 2006 12 Months | June 2005 12 Months[1] | % YOY Change |
|---|---|---|---|
| Sales | 1,711 | 1,324 | +29 |
| Operating earnings | 235 | 227 | +4 |
| Margin % | 13.7 | 17.1 | -20 |
| Funds | 972 | 883 | +10 |
| Return on funds % | 24.2 | 27.7[2] | -13 |

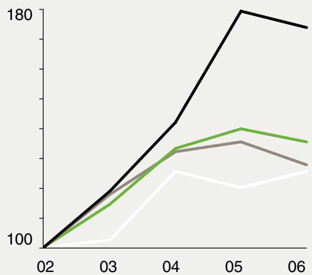
[1] Includes 4 months of Amatek
[2] Proforma returns based on 12 months of Amatek




**Lost time injury frequency rates**
LTI per one million hours worked

in Pacific Steel's electric arc furnace and the glass recycled in the glasswool insulation business, the division is developing technologies to recover zinc from hot dip galvanising dross, and other metals from industrial waste streams. Given current and likely future commodity pricing, this may represent an exciting new business opportunity.

Pacific Steel continued its trial disposal of used tyres through its furnace, but agreement has yet to be reached with the Auckland Regional Council to secure the relevant consents to allow ongoing use.




**Indexed sales volumes growth**
NZ$ Millions

Metal roof tiles
Glasswool
Plasterboard
Rod and rebar

## Outlook

The New Zealand new housing market is expected to continue to soften during the year. The equivalent Australian market appears to have bottomed out, but is unlikely to recover during the current financial year.

The negative impact on earnings is expected to be countered in New Zealand by an increase in export earnings and some increase in domestic pricing as the New Zealand dollar drops; and in Australia by further synergies arising from the Insulation Solutions and Stramit acquisitions.

A number of small "bolt on" acquisition opportunities are being investigated and if successfully concluded, will add to earnings growth.

# Distribution

**PlaceMakers' key customers are builders involved in residential and commercial construction and DIY customers with significant projects. PlaceMakers has 55 outlets operated in joint venture partnerships with local branch owners.**

PlaceMakers is the market leader in its core trade segments and provides an important distribution channel for Fletcher Building manufacturing companies. The company distributes building materials and related products throughout New Zealand under the PlaceMakers brand.

### Performance

Sales grew by 4 percent over that for the previous year. Trade sales rose by 5 percent, whilst cash sales were up 2 percent despite a very significant increase in retail competition with the opening of a number of large format stores.

Sales growth was supported by the store development programme, but the development costs affected operating expenses. Operating earnings were 7 percent lower for the year – a creditable performance in a slowing new housing market.

New store revenue grew by more than 10 percent – well ahead of the existing stores, which were on a par with previous years. Cash sales in new stores were in line with expectations, while trade sales growth in new stores exceeded expectations.

The ratio of working capital to sales grew marginally, mainly because stock levels rose by 7 percent as a consequence of the increased shelf capacity in the new stores.

Capital expenditure for the year was close to $18 million, allocated primarily to the new store upgrade programme. This was principally to refit existing leased premises and fit out new leased premises as part of the ongoing branch upgrade programme. Expenditure on information systems continued to enable the replacement of some ageing hardware. The development of new technologies to improve business processes for trade customers was a priority, along with electronic trading with suppliers. In an industry where electronic trading has been slow to develop, PlaceMakers now has well over half of its product suppliers taking advantage of this capability.

**FletcherBuilding**
**2006** Annual Report





PlaceMakers, building product distributors, New Zealand

# Highlights

**Revenue up by 4 percent** to $956 million

Operating earnings down 7 percent to **$75 million** in a slowing new housing market

**Four new stores opened**, and six stores expanded or upgraded

A **new distribution facility opened** in Mt Wellington to support the Cook Street branch

**Further improvement** in trading systems for trade customers and suppliers

PlaceMakers' marketing programme continued to emphasise its relationship with trade customers while supporting cash sales with a monthly mass media programme incorporating television advertising and household mailers.

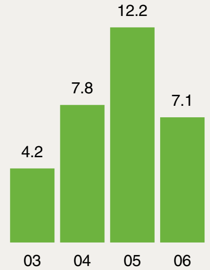
A trade customer management programme was advanced in a number of stores, favourably affecting about 80 percent of trade revenue. The LIFT loyalty, education and rewards programme continued to gain in strength. More than 2,500 builders attended a series of education seminars and several hundred participated in the rewards programme. The PlaceMakers V8 Supercars event attracted 350 trade customers, while the PlaceMakers Registered Master Builders annual House of the Year competition received a record number of entries at events throughout the country, culminating in the national finals held in Auckland.

## Business improvement

New stores were opened in Invercargill and Kerikeri, replacing outdated facilities. Trading at the new Twizel store, which opened in the last days of the previous financial year, exceeded expectations; and a new store was opened in Te Rapa, Hamilton in April 2006. Additionally, six stores were expanded and upgraded and a new distribution facility was added to expand the growing Cook Street, Auckland business.

**Results**

| NZ$ Millions | June 2006 12 Months | June 2005 12 Months | % YOY Change |
|---|---|---|---|
| Sales | 956 | 920 | +4 |
| Operating earnings | 75 | 81 | -7 |
| Margin % | 7.8 | 8.8 | -11 |
| Funds | 132 | 116 | +14 |
| Return on funds % | 56.8 | 69.8 | -19 |




**Lost time injury frequency rates**
LTI per one million hours worked

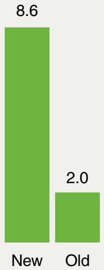
While providing much improved retail facilities, the store improvement programme is focused first and foremost on improving yard access and drive-through facilities – a focus that has been welcomed by the trade. More than half of PlaceMakers' sites have been upgraded to some extent in the past three years, with a dozen new or replacement stores established.

PlaceMakers has also advanced the use of quotation and delivery management systems, also welcomed by trade customers. In other systems development, groundwork commenced for the inevitable replacement of the current store information system.

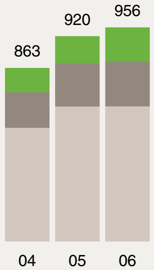
## People

PlaceMakers branches are operated by joint venture partners who each own 49.9 percent of their particular stores. Their financial commitment and interest in maximising the trading profit of their businesses is strongly aligned to the interests of Fletcher Building shareholders.

Joint venture partners typically have between five and 10 years experience at their branches, building strong relationships with trade customers. This group is complemented by PlaceMakers national executive team of 11, who average more than five years service each, with many more years of experience in their respective disciplines.

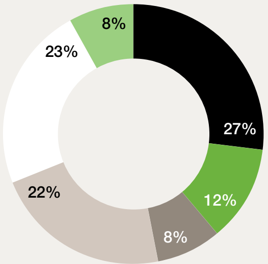



**Store performance**
Percentage increase in revenue achieved by stores




**Sales by product**
NZ$ Millions

Hardware products
Decorative products
Building products




**Sales by segment**
Percentage

DIY/CIY
Comm. builder
Volume builder
Major builder
Minor builder
SubCont/Installer

The joint venture business model ensures high calibre individuals operate PlaceMakers stores, providing competitive strength at both local and national levels.

During the year 730 staff attended in-house training courses covering such areas of operation as sales and customer service, inventory control and accounting. Supplier-provided product knowledge training complemented this activity.

### Health and safety

After the development of a comprehensive approach to improving health and safety outcomes over the past two years, PlaceMakers has achieved reductions of more than 40 percent in both lost time and medical treatment injury frequency rates.

The company has insisted that each branch complies with certain minimum standards, which are audited. Close to 250 senior personnel have attended in-house health and safety training programmes, and the unique *Use Your Noodle* communication programme has raised the awareness of all staff with respect to risk issues and good practice. A powerful health and safety video features PlaceMakers staff who have generously agreed to highlight the risks that resulted in their own injuries as salutary examples for their workmates.

PlaceMakers participates in the ACC Partnership programme and fully self-manages injury claims. Soft tissue injuries remain the most common of the accident types, and training programmes have concentrated on this issue, focusing on correct lifting techniques.

Pleasing though the improvements in health and safety have been, just six branches accounted for 60 percent of the hours lost as a result of injuries. The focus on improving safety will remain, especially in these branches.

### Outlook

New housing consents – the mainstay of PlaceMakers' business – are forecast to decline by 10-15 percent over the current year. Offsetting this decline in consents is a backlog of work yet to be completed from the previous year. Additionally, there is believed to be unsatisfied demand for alterations and additions work, as well as ongoing commercial construction activity. Nevertheless, competition in the sector is expected to intensify, particularly as 'big box retailers' continue to expand their chains throughout the country.

Returns from the store development programme are expected to gather momentum, and a further 10 stores are planned for replacement or refit over the next year. PlaceMakers' new Takanini store opened in July 2006, while the new store opened in late August at Wanaka. Work is advancing at Richmond and Palmerston North.

Finally, a review of the joint venture programme was undertaken late last year. As a result, returns to Fletcher Building will improve progressively over the next two years. While a new fee structure will contribute to this improvement, a strong focus on performance is expected to underpin profit gains.

# Infrastructure

**Manufacture of cement, aggregates, readymix concrete and concrete products in New Zealand. Manufacture of concrete pipes and production of aggregate sands throughout Australia. General construction contracting in New Zealand and the South Pacific, and residential house building in New Zealand.**

The Infrastructure division is an integrated manufacturer of cement, aggregates, readymix concrete and concrete products such as masonry blocks, precast products and concrete pipes. The key brands in New Zealand are Golden Bay Cement, Winstone Aggregates, Firth, Humes Pipeline Systems and Stresscrete; and in Australia, Rocla Pipeline Products and Rocla Quarry Products. The division is also the largest general contractor and residential house builder in New Zealand and the South Pacific. It operates in the civil and industrial engineering, commercial building, interior fitout and housing markets. The key brands are Fletcher Construction and Fletcher Residential.

## Performance

New Zealand sales and earnings grew for the fifth year in succession, as the operations benefited from a range of performance improvement initiatives while experiencing continued buoyant market conditions.

The Australia-based Rocla pipeline and quarry businesses, which were purchased in March 2005, achieved budgeted earnings despite more difficult trading conditions.

Sales for the year were up 27 percent to $1.8 billion, or 15 percent on a comparable basis excluding the Rocla operations. Operating earnings grew by 30 percent to $255 million.

Most of the division's earnings are derived from the New Zealand market, where demand remained strong. The concrete operations reported 4 percent growth in revenues, with higher prices and volumes recorded for most products. Sales volumes of cement, aggregates and concrete were slightly higher than for the previous year, but masonry volumes were down by 11 percent. Construction, including Residential revenue, grew by 23 percent.

FletcherBuilding

2006 Annual Report





# Highlights

Operating earnings **up 30 percent** to $255 million

**Substantial earnings growth** from Golden Bay Cement, Humes and Winstone Aggregates

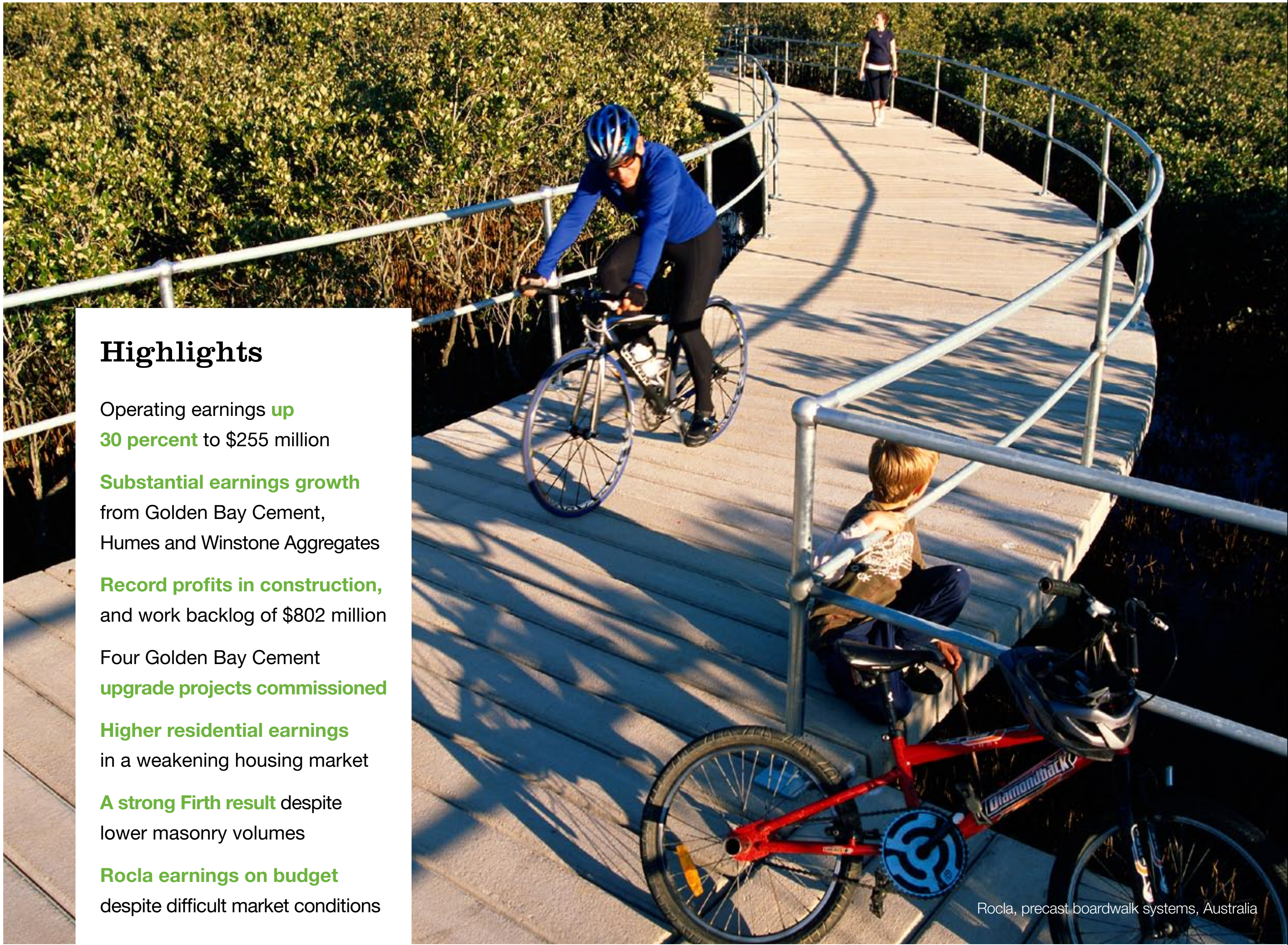
**Record profits in construction,** and work backlog of $802 million

Four Golden Bay Cement **upgrade projects commissioned**

**Higher residential earnings** in a weakening housing market

**A strong Firth result** despite lower masonry volumes

**Rocla earnings on budget** despite difficult market conditions



Rocla, precast boardwalk systems, Australia

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As in the previous year, a key focus for management was to improve margins. In 2005 the division reported that it expected to continue to benefit from a range of pricing initiatives, cost reduction programmes, product rationalisations and investments aimed at enhancing operational efficiencies. Most of the improvement in the New Zealand concrete operations' earnings this year was as a consequence of these initiatives.

Operating earnings from the Golden Bay Cement business improved in line with expectations. Sales volumes and prices were ahead of those for the previous year. The business is benefiting from its significant capital upgrade programme, which will be completed in September 2006. Four of Golden Bay Cement's upgrade projects were commissioned during the year.

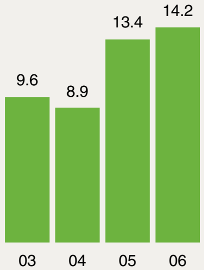
Winstone Aggregates recorded a substantial increase in earnings. Strong conditions, notably in Auckland roading, resulted in higher revenues. Operational performance continued to benefit from investments, but production costs increased due to the need to buy in some materials as a result of excess demand and higher fuel costs. Overall margins were higher.

Firth's earnings remained robust, although down marginally on those for the previous year. Volumes in the key readymixed concrete market were marginally higher, but the contribution per cubic metre was slightly lower, with margins in the Auckland area

**Results**

| NZ$ Millions | June 2006 12 Months | June 2005 12 Months[1] | % YOY Change |
|---|---|---|---|
| Sales | 1,823 | 1,441 | +27 |
| Operating earnings | 255 | 196 | +30 |
| Margin % | 14.0 | 13.6 | +3 |
| Funds | 766 | 660 | +16 |
| Return on funds % | 33.3 | 34.2[2] | -3 |

[1] Includes 4 months of Amatek
[2] Proforma returns based on 12 months of Amatek




**Lost time injury frequency rates**
LTI per one million hours worked

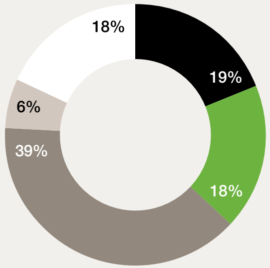
coming under pressure. Large raw material and distribution cost increases could not be fully recovered from the market. Firth's masonry volumes were down from the previous year.

The pipe market remained strong for Humes, with operating earnings improving significantly over those for the previous year, despite lower volumes. While market conditions in the second half were weaker than anticipated, the market outlook is still good.

Both Rocla businesses performed well, recording a return of 18 percent on funds employed. Operating earnings were marginally behind expectations in the quarry products business, largely as a result of more difficult market conditions in Sydney, offset in part by a strong performance in Perth. The pipeline products business exceeded budget due to strong growth in revenue and earnings from its railway sleeper business and considerable cost savings.

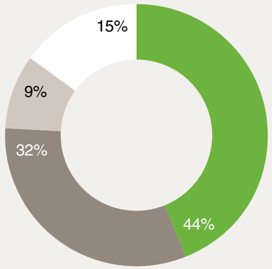
Fletcher Construction had another strong year, with operating earnings improving by 27 percent. All operations contributed to this growth, with earnings from the engineering division up 100 percent, supported by solid growth from the New Zealand commercial building and South Pacific operations.

The construction backlog at year-end was $802 million. Major contracts won during the year were the Stamford Plaza refurbishment ($100 million), Wellington Hospital ($200 million) and an extension of the North Shore Busway in Auckland ($100 million). This backlog and continued strong market




**Sales by segment – Concrete**
Percentage






**Sales by segment – Construction**
Percentage

conditions suggest that workload will remain strong in the commercial building operations. Turnover in the engineering division will be dependent to some extent on the timing of infrastructure projects expected to commence during the year.

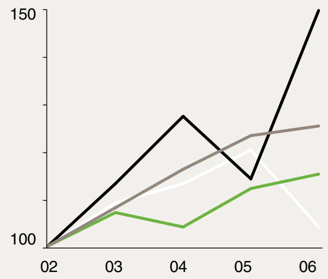
The Auckland residential market was relatively strong for Fletcher Residential, allowing it to again record improved earnings and margins. Fletcher Residential has commenced building at two new locations – the Lunn Avenue site in Auckland and Jacks Point in Queenstown – both of which are expected to be significant contributors in the current year.

The division also recorded $10 million of earnings from the divestment of approximately three quarters of the remaining land it owned in the United Kingdom. The remainder is expected to be sold over the next two years.

**Business improvement**

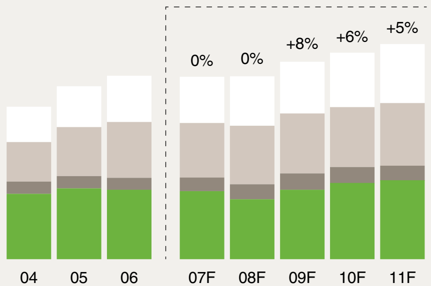
The primary focus of Infrastructure's capital investment programme is high-returning organic growth opportunities. This has contributed significantly to the substantial earnings growth achieved in recent years, and will assist the businesses within the division to achieve superior operational performance and returns in the future. The division invested $127 million in the 2006 year, compared with $123 million in 2005.

Major areas of investment were the Golden Bay Cement plant upgrade ($34 million), new quarry land and development including major plant upgrades




**New Zealand sales volumes growth** NZ$ Millions

Cement
Concrete
Aggregates
Masonry




**Value of work commenced in New Zealand**
Forecast increase per annum
Source: Infometrics F: Forecast

Infrastructure
A&A
Non-residential
Residential

($23 million), new concrete plants, a masonry plant upgrade and concrete trucks ($15 million), major construction plant and a small acquisition ($11 million), and new pipe moulds and pre-cast plant ($5 million).

The final project in the Golden Bay Cement upgrade is currently under way, and the programme is due for completion in September 2006. The upgrade will increase production capacity to 930,000 tonnes per year, and the full financial benefit will be realised from that time. The programme has already delivered annual savings of $10 million from reduced use of imported clinker and increased cement milling capacity, and a further $15 million of benefits are expected to be realised upon completion.

Further investment was made during the year to enhance Winstone Aggregates' and Rocla Quarry Products' positions in their key markets. Winstone Aggregates undertook a number of major initiatives within the Auckland region – continuing development of the Hunua quarry, consenting and commencing re-development of the Whangaripo quarry (a joint venture with Fulton Hogan), doubling extraction capability and gaining resource consent to increase sand volumes from the Kaipara Harbour, and replacing processing plant at Three Kings quarry. In the Waikato region, the development of the Whitehall quarry was progressed, and in Wellington the Petone sand processing plant and barge were replaced. Rocla Quarry Products obtained consent for the extension of the Calga quarry north of Sydney, and neighbouring land was acquired for future expansion.

Firth enhanced its competitive position in a number of markets through targeted investment in new plant, equipment and concrete trucks. Investment in a new chip plant and upgrade of its Auckland masonry plant were undertaken during the year. Rocla Pipeline Products commenced the upgrade of its railway sleeper operation after winning a major contract.

Construction upgraded major plant, with particular emphasis in areas where it could achieve good productivity gains and further enhance its competitive advantage. In addition, it acquired a small piling business which is complementary to the existing foundation engineering operations of the company.

**People**

Attraction and retention of good employees remained the key focus for the division during the year. Considerable time and money is committed to training at all levels throughout the division, with particular focus on skills-based learning. While some markets are softening, the continued high level of activity in construction operations will ensure that in-house training remains a key focus.

## Health and safety

Business units continue to manage several programmes to maintain safe working sites. In addition to reducing the risk of injuries, several businesses are also introducing programmes that address long-term occupational health risks.

The lost time injury frequency rate for the division increased slightly to 14.2 per one million hours due to the higher injury rates in the construction business units. In the concrete business units, the rate reduced to 8.56 per million hours. Construction lost-time injury hours are higher than those for permanent manufacturing sites, as there is less opportunity for early return to work with alternative duties. If compared on a total injury basis the construction operations are comparable with Fletcher Building's other manufacturing businesses.

As reported in the 2005 annual report, an employee was fatally injured in the Stresscrete plant at Papakura in March 2005. The company is being prosecuted as a result of this incident and a hearing is due in November 2006. The company has initiated significant improvements to its management of overhead cranes in all its business units as a result of this accident.

It was also reported last year that two truck drivers employed by Firth Industries died when their trucks fell from a barge in the Picton Harbour. This accident was investigated by Maritime New Zealand, which decided that none of the parties involved in the accident would be charged. Firth conducted its own investigation into this accident and is advocating changes to these maritime transport operations.

## Environment

The division maintains several programmes to continuously improve its environmental performance. It has more than 100 production sites in New Zealand, and more than 30 in Australia, which either extract aggregates and sand or manage operations involving cement and concrete. It also has to manage environmental effects at more than 90 construction sites – on each of which potential discharges of dust, and water with suspended sediments and elevated pH, must be managed. All sites have environmental management systems with controls to ensure regulatory compliance. Most sites are now subject to regular, independent audits.

During the latest year an external environmental audit was carried out at 10 representative sites within Rocla Quarry Products and Rocla Pipeline Products. These all complied with regulatory requirements.

The division's environmental effects will continue to reduce as its waste reduction programmes grow. Many of the ready-mix operations use a stabilizer admixture to enable reuse of concrete washwater to reduce waste. Fletcher Construction launched an industry-leading Environmental Toolkit describing and illustrating the practical requirements for effective environmental management on construction sites. Fletcher Construction (Engineering) has maintained its ISO 14001 certification.

Fletcher Construction has agreed to work with the New Zealand Business Council for Sustainable Development with respect to making representations on development of the concept of sustainability in the current review of the Building Act.

**Outlook**

At this point last year the division noted that it expected strong non-residential and infrastructure activity and softer residential activity in New Zealand. In the event, there was strong non-residential and infrastructure activity and some, but not significant, decline in residential construction. As a consequence the division achieved record sales volumes for most products.

Similar levels of non-residential and infrastructure construction are expected in the current year, but also a reasonably significant fall in residential construction. The backlog in the New Zealand construction businesses is higher than at this time in 2005, but residential construction activity is weakening.

Underlying demand for the division's heavy construction materials in New Zealand is thus expected to decline somewhat, but still remain at strong levels in the current year.

The Australian markets are expected to be more challenging – particularly for those products with exposure to the residential construction sector, where approvals are expected to decline for the third consecutive year. While the division is not expecting to see a recovery in housing activity through 2007, activity related to engineering construction will remain strong – particularly in Queensland and Western Australia, with a buoyant resources sector. Rocla Pipeline Products will benefit from the supply of more sleepers in the current year.

# Laminates & Panels

## Manufacturing, marketing and distribution of high-pressure and low-pressure decorative surface laminates and other panel products.

The Laminates & Panels division manufactures and sells high pressure and low-pressure decorative surface laminates, raw medium density fibreboard (MDF), particle board and kitchen components. It also distributes other related products such as hardware and timber in some regions. It has a high degree of exposure to the housing industry through both new housing and renovations and alterations. It also has exposure to the commercial sector, which includes the fit-out of offices, shops, schools, hospitals and other government institutions. The division has various levels of exposure to all sectors throughout each state in Australia and in New Zealand.

The division again performed strongly, increasing both revenue and operating earnings on those for the previous year. Performance was particularly strong in Australia, where market conditions varied on a state-by-state basis.

Funds usage increased, due primarily to the translation of Australian assets into New Zealand currency at June 2006, adversely affecting the return on funds.

Trading conditions varied across the major sectors, with overall activity in the housing industry down from the previous year in most areas of Australia and New Zealand. Commercial activity remained strong in most areas and generally up on the 2005 year.

Western Australia, and to a lesser degree South Australia, were the notable exceptions – being particularly strong in all sectors, with sales well up on the previous year. Sales were up slightly in Victoria and Queensland, and down slightly in New South Wales. Industry conditions in New Zealand were subdued, with revenue other than from the acquisition of O'Brien's down on the previous year.

Export sales of MDF into Asian markets were up by 5 percent. Demand for the division's product remains strong in China, Korea and Vietnam.

In addition to the relatively difficult market conditions, the division faced increases in a number of key input costs such as wood fibre, gas and electricity (especially in New Zealand), as well as freight and resin cost increases due to the escalation in oil prices. The earnings improvement

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## Highlights

Operating earnings **up by 8 percent** to $116 million

**Acquisition of** Dunedin-based benchtop manufacturer **O'Brien Laminates** in May 2006

**Particleboard capacity upgrade** completed at Kumeu (NZ) and commenced at Dardanup (WA)

**Strong performance** from the Western Australia joint ventures

**Improved** safety performance

**Successful release of new products** including *Diamond Gloss* high-pressure laminate, *Formica* laminate flooring and the Green*first*™ range of products


The Laminex Group, decorative surfaces, Australia and New Zealand was due largely to operational efficiencies, along with innovative marketing and new product initiatives taken during the year.

The division also has two joint ventures – Wespine, the major pine sawmiller in Western Australia, and Dynea, the supplier of resins to the Western Australian manufacturing operation. Both continued to perform strongly.

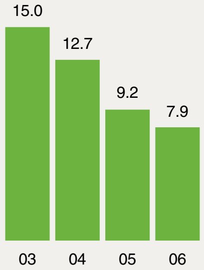
## Business improvement

Two significant capital projects were undertaken within the manufacturing operations during the financial year. A major capacity upgrade was completed successfully at the Kumeu (New Zealand) particleboard plant in May 2006. Particleboard production has increased by 30 percent over the past two years, and the upgrade will increase total capacity by a further 15 percent. The division is also upgrading its particleboard plant in Dardanup (Western Australia) at a total cost of $33 million over four stages. The first stage was completed during the year and is already delivering benefits through reduced input costs. The second stage is due for completion in September 2006.

The division took several initiatives to reduce costs, including taking over the previously outsourced warehousing function at its major distribution centre in Sydney. The high pressure laminating plant at Cheltenham (Victoria) undertook a number of operational improvements, including the rationalisation of its warehouse operations. In

**Results**

| NZ$ Millions | June 2006 12 Months | June 2005 12 Months | % Change |
|---|---|---|---|
| Sales | 1,027 | 948 | +8 |
| Operating earnings | 116 | 107 | +8 |
| Margin % | 11.3 | 11.3 | |
| Funds | 920 | 789 | +17 |
| Return on funds % | 12.6 | 13.6 | -7 |




**Lost time injury frequency rates**
LTI per one million hours worked

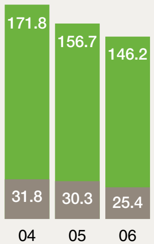
New Zealand, the division established its own in-house manufacture and supply of treated paper at its Papakura plant, replacing treated paper previously imported. In Western Australia, the use of larger volumes of low cost industrial wood residues partially offset increased costs in raw wood fibre at the Dardanup particleboard plant.

The division continued to invest in its information systems, completing the first stage of a programme whereby two of its four New Zealand manufacturing sites are converting to the same platform as its Australian plants. This will aid the process of optimising and scheduling the manufacturing facilities across Australia and New Zealand.

## New initiatives

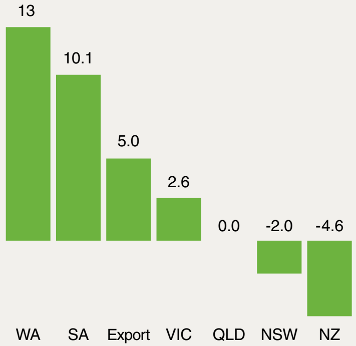
The Green*first*™ range of products, which have been independently certified as environmentally preferable by the Australian Ecolabelling Association (AELA), was launched during the year. A number of new product releases, including *Diamond Gloss* high-pressure laminate and Formica Flooring, also made a positive contribution during the year. Other new products, including the innovative essa™ stone range of premium benchtops, are now positioned to contribute to results.

The division also invested to expand its componentry operations. This included the acquisition of Australasia's largest manufacturer of kitchen benchtops, Dunedin-based O'Brien

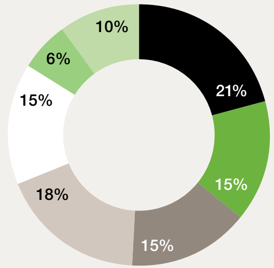



**Dwelling commencements**
Dwellings in thousands

Australia
New Zealand




**Sales changes by region**
Percentage (from prior year)




**Share of sales by region**
Percentage

NZ
WA
Export
QLD & NT
VIC & TAS
NSW & ACT
SA

Laminates, which has annualised revenue of approximately $25 million and 200 employees. The capability and capacity of the Ballarat componentry plant was increased during the year through the installation of new equipment.

**Health and safety**

The business is focused on continual safety improvement, recognising that good safety performance mirrors good business performance. A key aspect of the strategic health and safety plan is the requirement for all business units to have an accredited safety management system. The division has invested resources in meeting this requirement. It has benchmarked externally and will invest in pre-event and post-event management with a focus on leadership and behaviours.

The number of lost time injuries was reduced by 15 percent to 39. The lost time injury frequency rate (the number of lost time injuries per one million work hours) was reduced by 14 percent to 7.9. Whilst the reduction is pleasing, the overall incidence is not regarded as satisfactory. Further improvement is required, and the division will continue to focus on health and safety as it becomes integrated into all our business practices.

**People**

The division has continued its significant focus on developing leadership capability, with programmes designed to target the specific needs of current and future business leaders.

All programmes include a blend of in-house and external content, focusing on leadership skills, coaching, interaction management and performance management. A number of specific initiatives have also been developed to further enhance the focus on safety and employee engagement. These have been very successful.

Over the past 12 months the division has extended employee access to nationally recognised certificate qualification programmes, on topics including business, leadership, forest products, warehousing and competitive manufacturing.

Workplace diversity and equal opportunity continue to be a significant focus, with the business aiming for continuing positive recognition from the Equal Opportunity for Women in the Workplace Agency (EOWA). The agency has commended the business on its initiatives following the submission of reports for 2006.

The division continues to enjoy a positive and constructive employee relations environment. The recent introduction of new workplace relations legislation in Australia has required a review of employment terms and conditions to ensure compliance, and will be a focus of activity in the year ahead.

**Environmental**

The division is committed to fulfilling its environmental responsibilities, and has completed transition to the 2004 version of ISO 14001 at all major manufacturing sites. This international standard ensures that environmental management systems are in place to manage compliance with all regulatory requirements, develop and maintain systems to prevent pollution and commit to programmes of continuous improvement in environmental performance. The division is undertaking a number of initiatives, including the use of MDF wood dust in fuel briquettes at Christchurch (New Zealand) rather than disposal to landfill.

The division is also investing in a number of long-term activities which will provide continuous benefit to the environment. These include the use of more than 370,000 tonnes of wood waste as raw material in manufacturing particleboard and MDF, and more than 130,000 tonnes of sander dust and other wood waste each year to produce 1.8 million gigajoules of energy. The energy generated by the latter initiative is the energy equivalent to that from 80,000 tonnes of coal, which would have produced 160,000 tonnes of carbon dioxide. Both initiatives involve the productive use of waste that was previously disposed to landfill.

**Outlook**

The outlook is for a continuation of current trading conditions. Western Australia is expected to remain strong in the immediate future, whilst New Zealand and New South Wales will continue to be challenging. The other regions are expected to remain relatively flat. Commercial activity is expected to remain strong, whilst the overall level of housing activity across Australia and New Zealand is expected to remain at subdued levels.

Export markets are expected to remain firm, although dependent on the Australian and New Zealand dollar exchange rates relative to the US dollar.

The division will continue to pursue initiatives aimed at improving operational efficiencies across the business, as well as continuing its programme to develop new products and markets.

# Sustainability

## To endure as a business, we work diligently to align the commercial, social and environmental aspects of our operations to the benefit of employees, customers, shareholders and communities.

Since sustainability depends not only on strategy and performance but also on behaviour, the way we work is governed by our company's values. These capture our commitment to sustainable business practice and are embodied in the principles, policies and attitudes that regulate our operations and support our culture.

All Fletcher Building managers are required to promote and model the company's values, and all our people are required to conduct themselves accordingly. In this way, we seek to promote a responsible, high performance culture and, through appropriate behaviour, optimise performance and minimise business risk.

### People

Fletcher Building employs 15,500 staff – 8,500 in New Zealand, 4,600 in Australia, 1,800 in the Pacific Islands and Asia and 600 in North and South America. The company is New Zealand's second largest commercial employer. It is the creativity, commitment and energy of all of our people that drives the business and underpins its consistently strong performance.

The company strives to cultivate a meritocracy that attracts and engages the very best talent required to deliver our company strategy and plans. To encourage and promote performance excellence, we treat our people fairly and responsibly, rewarding success and encouraging and enabling them to improve and develop further, while respecting their personal commitments. In this way, we work to strengthen our standing as an employer of choice and add to the appeal of our employment brand – a powerful, sustainable resource, delivering significant intangible value to our stakeholders.

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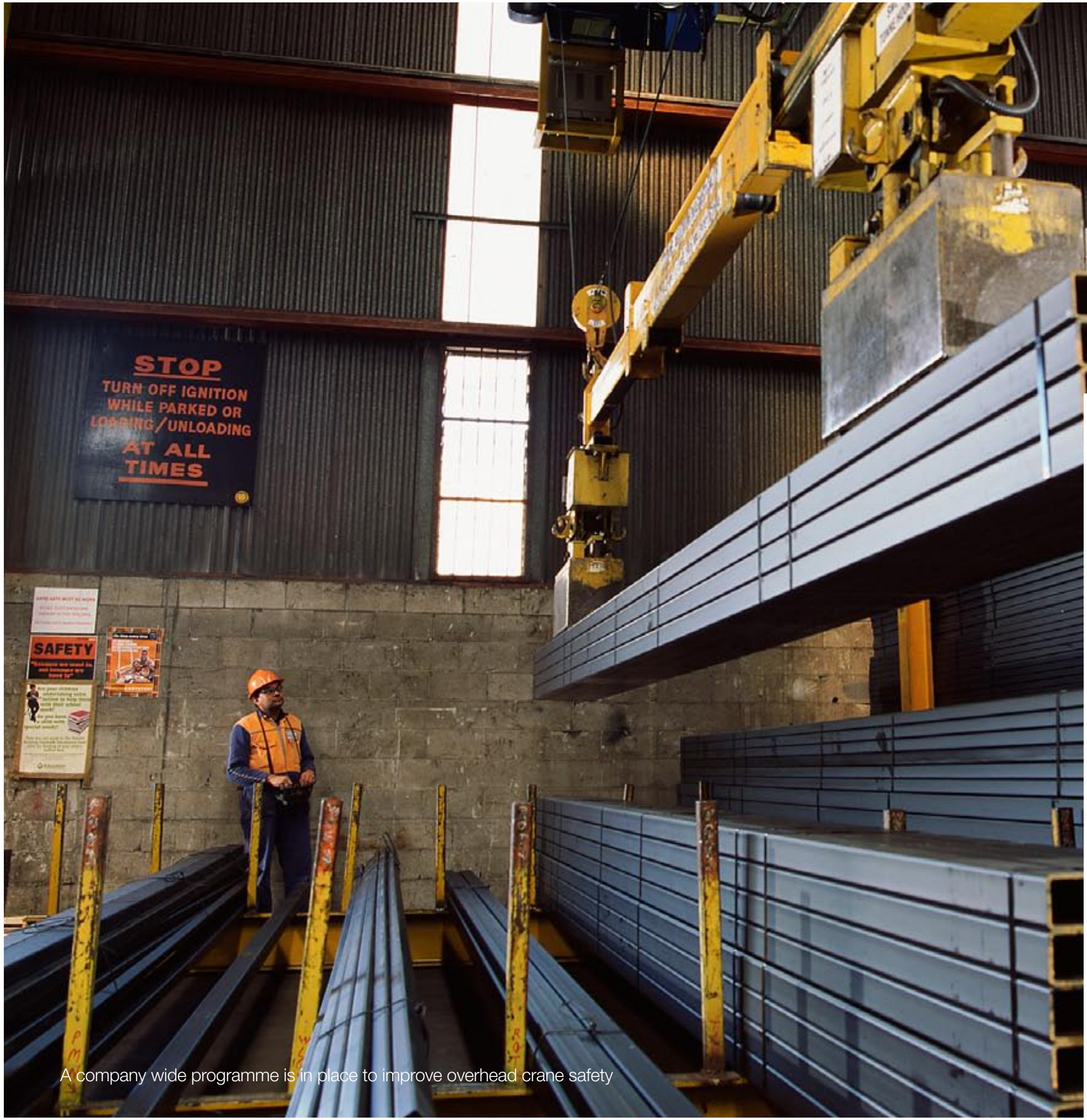

A company wide programme is in place to improve overhead crane safety

# Highlights

**Development opportunities offered** to enhance individual employee capabilities

**Employees' participation** in KiwiSaver encouraged by company contribution

**A significant improvement** in lost time injury frequency rate

Company wide **programmes instituted to improve safety** of overhead cranes in manufacturing plants

**Re-use of solid waste products,** including plasterboard from building sites being investigated

## Leadership

The quality of our leaders is critical to the sustained delivery of Fletcher Building's consistently strong performance. The company is fortunate to have a senior leadership talent pool of experience, competence and depth.

One-third of Fletcher Building's business unit general managers have more than 20 years service with the company, while a further one-third have more than 10 years service. In turn, 37 percent of general managers' direct reports have more than 10 years service, presenting the company with a deep resource pool for leadership and succession.

Although committed to appointing the best candidate to each job, it is the company's policy to promote from within wherever possible. In 2006, the company's executive and business unit general management ranks comprised 34 roles. Five new appointments were made within this group during the latest year, one of which was recruited externally. Our group recruitment function plays a key role in sourcing candidates of appropriate calibre and organisational 'fit'.

A culture that nurtures leadership at all levels is key to an organisation's success. Fletcher Building is committed to developing its own leaders, and offers a range of innovative internal courses in conjunction with the University of Auckland Business School and other leading Australasian universities. Some courses are accredited, leading to formal qualifications on completion. Courses include a distinguished guest speaker programme for the senior management group, advanced management programmes in New Zealand and Australia, a portfolio of 35 customised short courses for managers and functional specialists, and first-line leadership programmes for emerging supervisory talent.

In the latest year, 10 senior managers attended leadership training courses at universities in Australia, Britain and the USA. More than 100 senior managers are enrolled in our distinguished guest speaker programme. Fifty-one managers completed the group's advanced management programmes and 780 employees attended one or more short leadership courses.

At the date of this report, 38 New Zealand candidates are enrolled in group supervisory training and 15 managers are mid-way through the company's fourth Australian advanced management programme. New initiatives include a programme to unlock learning synergies from accredited courses, an e-learning portal and an on-line toolkit for managers.

These leadership development initiatives are available group-wide to supplement business unit programmes, improve competence, promote idea-sharing networks and a sense of community, and deliver economies of scale.

**Training and development**

We believe that people, particularly at the start of their careers, will increasingly want to work for companies that commit to the long-term development of employees. Fletcher Building is committed to helping all employees to learn continuously, pursue personal goals and develop professionally, in line with the needs of the business. We thus invest heavily in training and development.

Funding is provided from two sources – through routine skills training expenditure at business unit level and by way of grants made independently by the Fletcher Building Employee Educational Fund.

The Fletcher Building Employee Educational Fund is an independent trust fund that exists to promote the vocational development of Fletcher Building employees and their dependants through financial support. The trust supports educational initiatives that will benefit an employee or group of employees and clearly enhance their contribution to the company. In particular, it seeks programmes that will enhance workforce competence and build the capabilities the company requires to deliver its business strategy.

The number of applications to the fund continues to grow steadily. In the latest year, total grants of $4.6 million were approved, funding tertiary qualifications, short courses and personal development programmes, on topics ranging from executive education and leadership, through commercial and vocational disciplines, to literacy training.

**Equal opportunity and diversity**

The group is committed to developing a work environment that values difference and promotes business strength through diversity and equal opportunity.

A workplace that welcomes and supports all employees is central to the company's values. As our business becomes increasingly international, and our workforce more culturally diverse, our challenge in coming years will be to create value from workforce differences.

Age and ethnicity are well represented in the Fletcher Building workforce. Nevertheless, the proportion of female employees remains low – an imbalance characteristic of the Australasian manufacturing and construction sectors.

Fletcher Building is a proud member of the New Zealand Equal Opportunity Trust.

**Worklife balance**

Fletcher Building works proactively to assist its employees to balance their home and work lives.

Where roles and business requirements permit, flexible working arrangements are in place.

Kimba Corner, the company's early childhood care and education centre located in Auckland, caters for more than 60 children aged from six weeks to five years. The Fletcher Building Health and Fitness Centre offers a range of affordable health management programmes and services to permanent employees based near the company's Penrose site.

The group's staff discount facility grants employees in Australia and New Zealand access to negotiated bulk discounts on a range of products and services, including fitness and child care, where possible. Health insurance is available to all employees at preferred rates.

Retirement provision is an area of focus. The company will conditionally contribute an additional 2 percent of gross pay, up to a maximum of $1,750 per annum for each participating employee, along with individual employee contributions to KiwiSaver, the New Zealand Government's new retirement savings plan, effective from 1 July 2007. Retirement planning seminars are held for the workforce.

The Fletcher Building Employee Welfare Fund provides financial assistance to employees suffering personal hardship through misfortune. It also supports company events that promote healthy lifestyles for employees, and a school holiday programme for older children. This trust, like the Fletcher Building Employee Educational Fund, is wholly independent of the company.

**Labour relations**

Fletcher Building enjoys a history of positive dealings with the many labour unions represented within its business. The group strives for constructive working relationships with the union movement, based on partnership and mutual respect.

In New Zealand 28 percent of employees belong to labour unions. In Australia, union membership is 38 percent. There are more than 140 negotiated workplace agreements in place across the group.

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**A stake in the company**

Fletcher Building wants employees to feel directly involved in the performance of the business, and thus continues to encourage and support employee share ownership. More than 30 percent of the eligible Australian and New Zealand workforce own shares in the group through the employee share ownership scheme.

Certain senior managers are required to acquire and hold shares in Fletcher Building in their own names as a condition of employment. A broader group is eligible to participate in a long-term incentive programme in the form of a performance-based share scheme. Details can be found in the Corporate Governance section of this report.

**Communicating with our people**

The company believes that knowledgeable and well-informed employees are critical to its success. It endeavours to create clear channels of communication, with opportunities for dialogue on issues related to the business and matters that affect employees' working lives.

Common vehicles for communication include leadership briefings, meetings, feedback sessions, business unit newsletters and the company's intranet. Free-standing information kiosks providing factory staff with dedicated access to FBinfo, the company's Intranet site, are currently on trial.

The company publishes *FBNews*, a group-wide, quarterly on-line bulletin that covers items of common interest and business unit news. A print edition for employee notice boards is in production.

Formal employee surveys are conducted regularly. Among these is our annual leadership survey, which polls managers and supervisors about working for Fletcher Building, providing an opportunity for anonymous feedback. The response rate for the 2006 survey was particularly high at 81 percent. Perceptions of success (88 percent), pride (80 percent) and engagement (79 percent) were significantly higher than in comparable benchmark companies for the second consecutive year.

FairCall, a global free-call employee communication line, enables employees to report any matters of concern to management via a neutral third party, with guaranteed anonymity.

## Health and safety

Fletcher Building is committed to ensuring that its sites are managed safely, and managers are fully accountable for ensuring that hazards are identified and properly addressed. Assessments of safety performance and programmes are included in all business unit operational reviews.

The company has reviewed its policy and developed standards to:

- explictly state expectations for health and safety; and
- drive continual improvement towards leading industry practice.

These standards cover all operational aspects and activities that have the potential to affect health and safety. They provide clear direction to business units on emerging issues, such as the increasing significance of occupational health management.

The diversity of businesses within the group means that each business unit must develop its own health and safety systems, addressing the hazards inherent in its operations. Nevertheless, the company ensures that experience and solutions are shared amongst the business units whenever appropriate. One example has been a programme to improve the safety of overhead cranes in all manufacturing business units.

Further progress has been made with the implementation of a group-wide electronic incident recording system. The system, *Jobsafe*, has been extended to include other safety system elements, such as hazard records, and will also provide for recording of environmental incidents. Deployment of *Jobsafe* across all business units will enable improved communication about safety incidents and hazards.

The company achieved a significant improvement in its lost time injury frequency rate during the past year. The LTIFR was 9.67 per one million hours, compared with 11.5 for the previous year. Most business units are showing consistent improvement. As lost time injury rates are only one indicator of safety performance, we will move towards the use of total injury rates and of positive performance indicators as key measures. This will include greater focus on visible safety management and the participation of operational and business managers in safety observations.

Fletcher Building continues to participate in the Accident Compensation Corporation Partnership Programme in New Zealand. Three of its sites were externally audited in February 2006, and after the audit the company retained its primary-level membership of the programme. The Australian manufacturing sites are subject to differing injury management requirements, dependent on the regulatory regimes of individual states and on different schemes. Self-insurance is usually the preferred option, and the company is currently reviewing its provisions on a state-by-state basis.

**The environment**

The past year has seen a significant increase in the attention paid by governments and other stakeholders to the sustainability of buildings. Fletcher Building has been actively engaged in these issues for several years, and is therefore well-positioned to provide leadership.

The group has continued its investment in Beacon Pathway, a consortium of five organisations contributing funds for sustainable building research, matching those made available by the Foundation for Research, Science and Technology. The company has also agreed to become a member and take representation on the board of the recently-formed New Zealand Green Building Council. Fletcher Construction is participating in a project led by the New Zealand Business Council for Sustainable Development to make representations to the Government on issues such as the forthcoming review of the Building Code.

Fletcher Construction is building an office complex on the Wellington waterfront which has been designed to achieve the five-star rating under the Australian Green Building Council office rating scheme. It anticipates that its experience with sustainable office buildings will be utilised extensively as the demand for sustainable commercial buildings increases. It is also contributing to the development of infrastructure to support more sustainable energy use. Progress is continuing on the North Shore Busway project, which will offer a compelling alternative to the current levels of traffic during Auckland's rush hours. Progress is also under way on the facilities required for development of gas extraction and processing at the Pohokura field in Taranaki, New Zealand. This will improve the availability of clean-burning natural gas following the depletion of the Maui gas field.

Business units continue to develop sustainable products and building solutions. Laminex has gained the Environmental Choice label for its Lakepine® medium density fibreboard, and for other laminate and substrate products manufactured in New Zealand following their launch as the Green*first*™ range in Australia. Dimond produces a range of cladding products that provide for increased transmission of light and for capture of increased solar energy. Rocla

Pipeline manufactures a range of products that enable alternatives for urban water management, including its *EcoRain*® rainwater utilisation system, which is a self-contained water supply system that harvests rainwater for household use.

There are also many projects that aim to reduce the environmental effects of the group's manufacturing processes and the use of its products. Improvement of stormwater management and discharges is a significant focus on many of our manufacturing and construction sites. Another area of focus is to find options for the economic re-use of solid waste products at Pacific Steel and at concrete manufacturing sites. Winstone Wallboards has worked with the Ministry for the Environment to investigate options for collection and re-use of waste plasterboard from building sites.

Continued implementation of the improvement projects at Golden Bay Cement's Portland plant will see further efficiencies in greenhouse gas emissions. The Portland cement plant is Fletcher Building's largest point source emitter, and has been independently assessed as operating at world best practice for emissions management for comparable plants. Similar studies of emissions efficiency were completed for Pacific Steel and The Laminex Group, confirming that these operations have attained a comparable emissions efficiency standard.

Fletcher Building has participated in the Carbon Disclosure Project, which publishes reports and distributes information based on responses to its surveys. This is the first year in which it has sought information from Australian and New Zealand companies – all those in the ASX100 and NZX50 indices have been approached. Consistent with the report required for this project, the company has prepared a carbon dioxide inventory for calendar year 2005. Total emissions for 2005 were 1.34 million tonnes of carbon dioxide – 961,000 tonnes in New Zealand and 378,000 in Australia. Total energy use was approximately 12.5 petajoules. There are no material emissions resulting from Fletcher Building's operations or projects in countries other than New Zealand and Australia.

The New Zealand and Australian Governments have taken divergent approaches to climate change. New Zealand has ratified the Kyoto Protocol, and the Government intends to meet its commitments under the Protocol with a range of nationally applicable policies and regulatory requirements. Earlier policies to introduce a carbon tax and Negotiated Greenhouse Agreements for 'competitiveness-at-risk' businesses have been discarded. Australia has not ratified the Protocol, but has committed to achieving equivalent targets and to international technology collaboration through its participation in the Asia-Pacific Partnership.

There are emerging policies requiring reporting and energy efficiency improvements at both state and federal levels in Australia. The group continues to monitor these policy developments closely. With independent verification of current emission efficiencies and the ability of some operations to use alternative fuels, including waste-derived fuels, we do not anticipate any material cost increases to our businesses.

# Board of Directors

## Roderick Sheldon Deane

**PhD, LLD (Hon), BCom (Hons), FACA, FCIS, FNZIM, Independent Chairman of Directors, Chairman of the Nominations Committee, Member of the Remuneration Committee**

Dr Deane, 65, has had a broadly based career in business and the executive branch of government. He is currently chairman of Fletcher Building, Fletcher Building Finance and the New Zealand Seed Fund. He has recently resigned as chairman of Telecom New Zealand, ANZ National Bank and Te Papa Tongarewa (the Museum of New Zealand) and as a director of Australia and New Zealand Banking Group. Dr Deane is also a director of Woolworths, which is headquartered in Australia, and is on the Board of Governance of IHC Inc.

## Jonathan Peter Ling

**B Eng, MBA, Managing Director**

Mr Ling, 52, joined the board effective 1 September 2006 on taking up the role of chief executive officer and managing director of the company. He has extensive management experience in competitive manufacturing business through his senior management roles in the company's Laminates & Panels division since 2003, and before that in Pacifica, Visy and Nylex. Mr Ling is also a director of Fletcher Building Finance.

## Paul Edward Alex Baines

**BCA, FCA, MPP, Independent Non-Executive Director, Chairman of the Audit Committee, Member of the Nominations Committee**

Mr Baines, 56, has an extensive background in financial and strategic management and has wide experience as a director in both the public and private sectors. He is chairman of Barnardos New Zealand and is a director of Gough Gough and Hamer, Greenstone Fund, Fletcher Building Finance, the Reserve Bank of New Zealand and the New Zealand School of Music, and is a board member of the New Zealand Institute of Economic Research. He has recently resigned as a director of Telecom New Zealand.

## Geoffrey James McGrath

**MIIE, Independent Non-Executive Director, Member of the Remuneration and Nominations Committees**

Mr McGrath, 64, has had extensive management experience in the Australian building products industry, including 10 years as the managing director of GWA International, a manufacturer and marketer of consumer and building products. Mr McGrath retired as managing director in 2003, but renewed his relationship with GWA International through his appointment as a non-executive director in July 2004. He is also the chairman of Campbell Brothers and a director of Fletcher Building Finance.

## Sir Dryden Spring

**DSc (Hon), Independent Non-Executive Director, Chairman of the Remuneration Committee, Member of the Nominations Committee**

Sir Dryden, 66, has a long-standing record of leadership in a range of industries. He is chairman of the Asia 2000 Foundation, the New Zealand APEC Business Advisory Council and ANZ National Bank. He is a director of Port of Tauranga, Sky City Entertainment Group, Northport and Fletcher Building Finance. He is a member of the New Zealand Business and Parliament Trust, a distinguished fellow of the Institute of Directors and a member emeritus of the International Policy Council on Agriculture, Food and Trade.

## Ralph Graham Waters

**CP Eng, FIE Aust, M Bus, Non Independent, Non-Executive Director Member of the Remuneration and Nominations Committees**

Mr Waters, 57, was the company's chief executive officer and managing director since 2001. He retired from his role as chief executive officer on 31 August 2006 but remains a non-executive director of the company. Mr Waters has extensive management experience in the Australasian building products industry, including as managing director of Email, a major Australian industrial company. He is also a director Fisher & Paykel Appliances Holdings, Fonterra Co-operative Group and Fletcher Building Finance.

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## Kerrin Margaret Vautier

**CMG, BA, FInstD, Independent Non-Executive Director, Member of the Audit and Nominations Committees**

Mrs Vautier, 61, is a research economist specialising in competition law and economics. She is chair of the Advisory Board of the New Zealand Asia Institute, a director of News & Media (NZ) and Fletcher Building Finance, and adviser to the Partnership Board of Deloitte. She was recently appointed chairman of the Musica Sacra Trust. Mrs Vautier is a lay member of the High Court under the Commerce Act, a senior part-time lecturer in the Commercial Law department at the University of Auckland, and a former member of the New Zealand Commerce Commission.

## Hugh Alasdair Fletcher

**MCom (Hons), MBA (Stanford), BSc, Independent Non-Executive Director, Member of the Audit and Nominations Committees**

Mr Fletcher, 58, has had extensive management experience and now holds a number of directorships and advisory positions. He is chairman of the Advisory Board for No 8 Ventures. He is a director of IAG New Zealand, Rubicon, Fletcher Building Finance and the Reserve Bank of New Zealand. He is also a member of the Business Advisory Council of the United Nations Office for Project Services, and Chancellor of The University of Auckland. He has recently resigned as a director of Ports of Auckland and VCU Technology.

# Corporate Governance

**Fletcher Building is a New Zealand based building materials manufacturer whose securities are listed on the New Zealand and Australian stock exchanges. These exchanges require formal adoption of approved corporate governance practices by listed company boards of directors.**

Accordingly, the board of Fletcher Building confirms that it is committed to the highest standards of behaviour and accountability, and has adopted policies and procedures that reflect this.

The company has adopted 10 principles recognised by the Australian Stock Exchange Corporate Governance Council in its report of 31 March 2003 as an appropriate way to organise its corporate governance policies and reporting. In establishing its corporate governance procedures, the company reviews the practices and trends in corporate governance in other jurisdictions, and has incorporated these where appropriate.

The company believes that the practices it has adopted ensure that it meets the requirements of New Zealand Exchange's Corporate Governance Best Practice Code and the Securities Commission's Corporate Governance in New Zealand Principles.

Fletcher Building's corporate governance practices are fully detailed on its website and shareholders seeking an in-depth review are encouraged to access information from this source.

## 1. Ensuring solid foundations for management and oversight

The company's procedures are designed to:

- enable the board to provide strategic guidance for the company and effective oversight of management
- clarify the respective roles and responsibilities of board members and senior executives in order to facilitate board and management accountability to both the company and its shareholders
- ensure a balance of authority so that no single individual has unfettered powers.

The board has an obligation to protect and enhance the value of the company's assets, and to act in its interests. It exercises this obligation through the approval of appropriate corporate strategies and processes, with particular regard to portfolio composition and return expectations. These include approval of transactions relating to acquisitions, divestments and capital expenditures above delegated authority limits, financial and dividend policy and the review of performance against strategic objectives.

As part of its review of the strategic direction of the company, an off-site strategy session is held with senior management each year. Senior management are expected to address strategic issues in the business as part of their monthly review. Where appropriate special strategic reviews are held of business groups or units, where material change is evident or contemplated.

The company achieves board and management accountability through written terms of reference for the chairman, directors and management, and a formal delegation of authority to the chief executive. The effect of this framework is that whilst the board has statutory responsibility for the activities of the company, this is exercised through delegation to the chief executive, who is charged with the day-to-day leadership and management of the company. As part of its annual review of its governance processes, the board reviews the delegations to the chief executive each year.

The board evaluates annually the performance of the chief executive and the chief executive's direct reports. The evaluation is based on criteria that include the performance of the business and the accomplishment of long-term strategic objectives, and other non-quantitative objectives established at the beginning of each year.

The governance procedures require the board to be comprised of a majority of independent directors and for there to be a separation of the role of chairman from that of the chief executive. These policies also provide that a director who has been employed in an executive capacity in the last three years cannot be considered an independent director. R G Waters will therefore be considered non-independent for at least the next three years. With J P Ling being an executive director, the board is 75 percent comprised of independent directors.

## 2. Structuring the board to add value

Directors believe that for the board to be effective it needs to facilitate the efficient discharge of the duties imposed by law on the directors and add value to the company. To achieve this, the board is organised in such a way that it:

- obtains a proper understanding of, and competence to deal with, the current and emerging issues of the business
- can effectively review and challenge the performance of management and exercise independent judgement
- can assist in the identification of director candidates for shareholder vote.

### Board composition

While the constitution provides that the appropriate size for the board is between three and nine members, the board has determined that eight is an appropriate number at this time. At least one-third of all directors stand for election every year although this is often increased due to requirements of the stock exchanges. The directors who retire in each year are those who have been longest in office since their last election or, if there are more than one of equal term, those determined by agreement.

Subject to continued shareholder support, the standard term for a non-executive director is six years from the date that he or she initially stands for election. At the end of this term the director will offer his or her resignation. The board may, if it considers it appropriate, offer a further three-year term.

The board has constituted a nominations committee, chaired by the chairman of the company and composed of all the non-executive directors. This committee assists in the identification of appropriate directors and, through the committee chair, reviews the performance of existing directors.

### Committees

Committees established by the board review and analyse policies and strategies, usually developed by management, which are within their terms of reference. They examine proposals and, where appropriate, make recommendations to the full board. Committees do not take action or make decisions on behalf of the board unless specifically mandated by prior board authority to do so. A committee or an individual director may engage separate independent counsel at the expense of the company in appropriate circumstances, with the approval of the chairman.

The current committees of the board are audit, remuneration and nominations. These meet when necessary and consist entirely of non-executive directors. From time to time, the board may create ad hoc committees to examine specific issues on its behalf.

**Board process**

Although directors are elected by the shareholders to bring special expertise or perspectives to board deliberations, decisions of the board are made as a group, after taking each perspective into account and in the best interests of the company.

The directors receive comprehensive information on the company's operations before each meeting and have unrestricted access to any other information or records. To assist in ensuring information is timely, focused and concise, board papers are prepared and distributed electronically. Where directors cannot participate in a meeting they forward their views to another director in advance of the meeting. Senior management is also available at each meeting to address queries, and to assist in developing the board's understanding of the issues facing the company and the performance of its businesses.

Director participation remains very high, with all directors being present at each of the ten scheduled meetings. In addition to these meetings were five site visits and a strategic retreat session with senior management. Each of the nominations, audit and remuneration committees of the board met on two occasions during the year. Outside these scheduled meetings was one special purpose board committee meeting.

## 3. Promoting ethical and responsible decision-making

The company has written procedures to:

- clarify the standards of ethical behaviour required of company directors and key executives, and ensure observance of those standards through a code of conduct and the terms of reference for directors and management
- prescribe the circumstances where directors and employees can trade in company securities.

The company has a written code of values, and supplements this with various code of conduct practices that are incorporated into all employees' terms of employment. Further details are provided later in this section.

The company has a written policy on illegal and unethical conduct. It reinforces this policy with promotional programmes to employees and provides a FairCall confidential telephone hotline to enable reporting of inappropriate behaviour. The FairCall line is operated by an independent party, and the outcome of all matters raised is reported to the audit committee.

New Zealand legislation and the company's securities trading code of conduct prevent short-term trading and dealing in the company's securities whilst directors and senior executives are in possession of non-public material and relevant information. The company reinforces these measures by requiring that any of the 80 persons comprising executives and directors who are currently designated as having the opportunity to access price sensitive information can transact in its securities only with the prior approval of the company secretary.

## 4. Safeguarding the integrity in financial reporting

While the ultimate responsibility to ensure the integrity of the company's financial reporting rests with the board, the company has in place a structure of review and authorisation designed to ensure truthful and factual presentation of its financial position. This includes:

- an appropriately resourced audit committee operating under a written charter
- review and consideration by the audit committee of the accounts and the preliminary releases of results to the market
- a process to ensure the independence and competence of the company's external auditors
- establishment of an internal audit function in the corporate office, with reporting responsibility to the audit committee
- responsibility for appointment of the auditors residing with the audit committee.

The audit committee met formally on two occasions, at which all committee members were present.

### 5. Making timely and balanced disclosure

The company has in place procedures designed to ensure compliance with the NZX and ASX Listing Rules such that:

- all investors have equal and timely access to material information concerning the company, including its financial situation, performance, ownership and governance
- company announcements are factual and presented in a clear and balanced way.

Accountability for compliance with disclosure obligations is with the company secretary. Significant market announcements, including the preliminary announcement of the half year and full year results, the accounts for those periods and any advice of a change in earnings forecast require prior approval by either the audit committee or the board.

### 6. Respecting the rights of shareholders

The company seeks to ensure that its shareholders understand its activities by:

- communicating effectively with them
- giving them ready access to balanced and clear information about the company and corporate proposals
- making it easy for them to participate in general meetings.

To assist with this, a company website is maintained with relevant information, including copies of presentations, reports and media releases. The corporate governance procedures are also included on the website. To further assist shareholders the company prepares and distributes its accounts in electronic format to shareholders who have so requested.

### 7. Recognising and managing risk

The company has a formalised system for identifying, overseeing, managing and controlling risk.

The processes involved require the maintenance of a risk register that identifies key risks facing the business and the status of initiatives employed to reduce them. The risk register is reviewed regularly, including as part of the internal audit reviews. A formal risk review is held with the board each year.

## 8. Encouraging enhanced performance

Directors and key executives need to be equipped with the appropriate knowledge and information to discharge their responsibilities effectively and be assured that individual and collective performance is regularly and fairly reviewed.

The terms of reference for directors and the chairman, the charters for board committees and the delegation to the chief executive officer all provide for reviews of the performance of directors and senior management. The nominations committee assesses the composition and effectiveness of the board and its committees annually. The chair of the nominations committee undertakes one-on-one reviews annually with all directors on the effectiveness of the board.

The board evaluates annually the performance of the chief executive officer and his direct reports. The evaluation is based on criteria that include the performance of the business and the accomplishment of long-term strategic objectives and other non quantitative objectives established at the beginning of each year.

In addition to these annual performance reviews, significant policy issues and capital expenditure or divestment decisions of management are required to undergo a formal peer group review process, including approval by the executive office or the board where necessary.

## 9. Remunerating fairly and responsibly

The company seeks to ensure that its remuneration policies attract and maintain talented and motivated directors and employees as a way of enhancing the performance of the company.

### Non-executive directors' remuneration

The fees paid to non-executive directors for services in their capacity as directors during the year ended 30 June 2006 were:

| | Base Fees NZ$ | Committee Fees NZ$ | Other Fees NZ$ | Total NZ$ |
|---|---|---|---|---|
| R S Deane | 240,000 | 15,000 | | 255,000 |
| P E A Baines | 80,000 | 27,500 | | 107,500 |
| H A Fletcher | 80,000 | 20,000 | | 100,000 |
| G J McGrath | 80,000 | 15,000 | 10,000 | 105,000 |
| R G Norris | 8,670 | 1,630 | | 10,300 |
| Sir D Spring | 80,000 | 20,000 | | 100,000 |
| K M Vautier | 80,000 | 20,000 | | 100,000 |
| **TOTAL** | **648,670** | **119,130** | **10,000** | **777,800** |

The remuneration policy for non-executive directors does not include participation in either a share or share option plan. Non-executive directors or their associates are nevertheless required to hold at least 20,000 shares in the company.

The company's policy is to align directors' remuneration with that for comparably sized Australian companies. Directors' fees are normally reviewed biennially by the nominations committee unless it is apparent that a significant market movement has occurred. The last review was in 2004 although the increase in directors' remuneration was spread over the 2004 and 2005 years. The current base fee for directors is $80,000 per annum.

In acknowledgement of the varying workloads of the board committees, the additional remuneration payable was $15,000 for membership of the audit committee, $10,000 for the remuneration committee and $5,000 for the nominations committee. Committee chairs receive a 50 percent premium to the committee fee. The board chairman's fee is determined as three times the base fee paid to directors. In acknowledgement of the additional time commitment required of any Australian based director, a travelling allowance of $10,000 per annum is also payable. Where an ad hoc committee is convened, such as for due diligence, additional remuneration is payable at $1,000 per half day.

As part of its biennial review of remuneration the company has commissioned an independent report on directors' remuneration in Australia. It recommends the base directors fee increase to $110,000 with increments to committee fees as well. Directors believe that an increase to this level should again be staged over two years, notwithstanding the company's policy would provide for this increase now. It is intended that for the year ended 30 June 2007 the base directors fee increase to $95,000, with committee fees being $18,000, $15,500 and $6,500 per annum for participation on the audit, remuneration and nominations committees respectively. These increases will be subject to shareholder approval at this year's annual shareholders meeting, and further details on the proposed changes will be provided in the notice of meeting.

The company believes that this will provide an appropriate remuneration structure that recognises the increased Australasian focus of the company's activities and the increased corporate governance obligations imposed on directors.

**Executive director's remuneration**

R G Waters' remuneration for the year ended 30 June 2006 was $2,883,350. Included in this sum are short and long-term variable incentive payments totalling $1,700,000 for achieving company profitability targets and individual performance goals. A part of this remuneration has been taken by way of an employer contribution to a retirement benefit with the Fletcher Building Retirement Plan. As an executive director for the year ended 30 June 2006 Mr Waters did not receive any further remuneration in his capacity as a director of Fletcher Building Finance Limited or other group subsidiaries.

**Directors' and officers' indemnification and insurance**

The company has arranged a programme of directors' and officers' liability insurance covering directors, executives and employees in managerial positions acting on behalf of the company. Cover is for damages, judgements, fines, penalties, legal costs awarded and defence costs arising from wrongful acts committed whilst acting for the company.

Actions not covered include dishonest, fraudulent or malicious acts or omissions; wilful breach of a statute or regulation or a duty to the company; improper use of information to the detriment of the company; and breach of professional duty. The insurance cover is supplemented by indemnification by the company, but this does not cover liability for criminal acts.

## Senior management remuneration

### Remuneration philosophy

The company's remuneration strategy aims to attract, retain and motivate high calibre employees at all levels of the organisation, and so drive performance and sustained growth in shareholder value. Underpinning this strategy is a philosophy that all employees should be appropriately and competitively rewarded – particularly for delivering superior performance that contributes to improved business results.

Total remuneration for executives comprises fixed pay, including the value of any benefits, and a short-term variable incentive in the form of an annual performance related bonus that forms a significant portion of the total package. All executive performance bonuses require achievement of a mixture of company financial and personal targets.

The company's remuneration committee is kept fully appraised of relevant market information and best practice, obtaining advice from external advisors when necessary. Remuneration levels are reviewed annually for market competitiveness.

### Fixed remuneration

It is the company's policy to pay fixed remuneration comparable to the median and total compensation of the upper quartile for equivalent roles in similar

New Zealand companies. For the purposes of benchmarking total compensation for the senior executive group, it is assumed that senior executives will on average achieve 75 percent of their potential variable earnings over time, such percentages to be reassessed periodically in the light of the actual earnings achieved over the business cycle. It is considered appropriate that 50 percent of variable incentives be achieved over a normal business cycle.

### Variable compensation

Variable compensation is available to recognise the contribution of senior executives to company and individual performance objectives. This is determinable as a percentage of fixed remuneration. The short-term variable compensation is up to 100 percent of the fixed remuneration for the chief executive, up to 60 percent for the direct reports to the chief executive and up to 40 percent for all other senior executives depending on the size of their role.

Participation in the annual variable incentive plan is by annual invitation, at which time the target incentive is established. This involves each participant being notified of a financial target and several challenging, measurable personal objectives for the financial year. A variable incentive payment against either target is paid only once the minimum hurdle of the financial target is achieved. That is, even if a participant achieves 100 percent of personal objectives, no variable incentive payment is payable until the minimum financial target is achieved.

The financial measures include the operating earnings target for the applicable division or business unit and the corporate Economic Value Added (EVA) target. Corporate executives are measured on a mix of EVA and personal objectives.

The target for commencement and determination of variable incentive payments is an assessed measure for each business unit or operating division, and is based on the approved budget. In most years the starting point for any variable compensation payments is at 90 percent of target, with 50 percent of the financial component earned at 100 percent of target, and 100 percent of the financial component earned at 105 percent of target.

Individual variable compensation payments are offered entirely at the discretion of the board. Because an unduly formulaic approach to variable compensation calculations can lead to anomalies, the chief executive officer has the discretion to make recommendations for approval on an individual basis for "one-off" incentive payments to reflect outstanding performance.

## Long-term incentives

The company offers a long-term incentive scheme, targeted at around 200 executives most able to influence financial results. Participation in any year is by invitation, renewable annually and at the complete discretion of the company.

Participants are able to purchase shares in the company at the offer price with an interest-free loan. The offer price is established at market value at the time of offer, which will normally be each 30 September. The shares are held by a trustee on behalf of participants until the end of a three-year restrictive period. Provided certain performance criteria are met and participants remain employed with the company throughout the restrictive period, legal title in the shares will be transferred to them at the end of the restrictive period.

To the extent the performance criteria are met at the end of the restrictive period the company will pay participants a bonus, the after-tax amount of which will be equal to the offer price of each share for each share vesting on the participant, such that it will be sufficient to repay the outstanding balance of the interest-free loan.

Annual entitlement is of an amount equal to half the maximum entitlements under the participant's applicable short-term variable incentive plan. The number of shares issued to the participant is determined by dividing the after tax value of the annual entitlement amount, after applying the highest individual tax rate, by the offer price of the shares. Dividends on these shares accrue to the benefit of the participant only to the extent that the two performance criteria are met. These criteria are Total Shareholder Return (TSR) and continuity of employment over the restrictive period. The TSR performance requirement is determined by benchmarking, by way of a percentile ranking approach, against the TSR performance of a group of no fewer than ten independently determined Australasian comparator stocks. For participants meeting the restrictive period, the bonus is paid to enable repayment of the loan made to acquire the shares dependent on the TSR percentile achieved.

A TSR percentile of less than 51 percent means no shares are earned. A 51 percent TSR gives an entitlement to 50 percent of the shares. Full entitlement to the shares arises at a 75 or greater TSR percentile, with linear pro-ration on performance between the 51 and 75 percentiles.

If the performance criteria are not met, or if the participant ceases to be employed by the group throughout the restrictive period, the participant's beneficial interest in some or all of the shares must be transferred back to the trustee of the scheme. In this situation, the loan provided in respect of those shares which do not vest is novated by the participant to the trustee and will be fully repaid by the value of the forfeited shares. This will have the effect that a participant will not be required to reimburse the trustee for any loss in the value of the forfeited shares since the acquisition of the beneficial interest. Conversely, if the forfeited shares have increased in value, a participant will not be entitled to the gain. The company has the right to discontinue the scheme at any time.

## Superannuation

The Fletcher Building Retirement Plan provides defined benefit and defined contribution savings entitlements. As the defined benefit entitlement has been closed to new members since 1990, only a few of the long serving members participate on this basis. For those participating, an amount to recognise the value of the employer contributions required is included in the remuneration information in the Regulatory Disclosures section of this report.

Participation on a defined contribution basis for senior executives has been available since 2003, with executives having the ability to take a portion of their total remuneration by way of an employer contribution to the Retirement Plan. The amount contributed on their behalf is after deduction, and payment, of the required superannuation contribution withholding tax. Executives can elect to have the return on their investment determined by reference to the investment return of the Retirement Plan, or by reference to the performance of the company's shares.

## Holding the company's securities

A standard term in the senior executive employment contract is a requirement that, over time, senior executives must acquire and maintain a holding in the company's ordinary shares, the market value of which exceeds 50 percent of their fixed remuneration. In meeting this obligation executives are required to apply at least half of the after tax earnings from the senior executive variable incentive plan in acquiring shares. The company believes this strengthens the alignment of senior executives with the interests of shareholders and puts their own remuneration at risk to long-term company performance. There is, however, no equity remuneration scheme pursuant to which this obligation is met other than the shares that may be acquired at the end of the three year restrictive period for the long term incentive scheme.

Executives are left to their own discretion to organise acquiring the shares within the normal insider trading rules, and no allowance is made for the restriction on trading those shares.

The company does, however, allow executives to meet their requirement to hold the company's shares by having an economic exposure to the shares through a defined contribution investment account in the Fletcher Building Retirement Plan, the value of which is calculated by reference to the Fletcher Building share price. After deduction of superannuation contribution withholding tax at the applicable rate, executives' annual variable incentive payments are applied as an employer contribution to this investment account, unless the executive has the right to request a cash payment. This after tax amount is then applied in determining the number of shares notionally applied to the investment account.

### Disclosure policy

The New Zealand Companies Act 1993 requires the disclosure of all remuneration payable over $100,000 per annum in $10,000 bands. As the company must comply with this obligation, it has chosen not to also make detailed disclosure of the remuneration of the five highest paid executives as is considered best practice under the ASX Corporate Governance Guidelines.

## 10. Recognise the legitimate interests of stakeholders

The company recognises that it has a number of legal and other obligations to non shareholder stakeholders such as employees, clients, customers and the community as a whole.

Its commitment to these obligations is captured in the code of values, and in various policies and procedures for ethical conduct, the responsibilities of employees, conflicts of interest, and relationships with suppliers and customers. These are incorporated into the employment terms of all employees.

### Compliance with ASX corporate governance guidelines

The company meets all the best practice requirements of the ASX Corporate Governance Council other than making detailed disclosure of the five highest executives' remuneration. As is noted above, the company makes the remuneration disclosures required of a New Zealand company under the Companies Act 1993.

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# Financial Review

The financial statements have been prepared in accordance with New Zealand standards that comply with International Financial Reporting Standards (NZ IFRS). The group'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 group's earnings, equity and balance sheet, are provided in the notes to the financial statements.

**Results**

The results for the year are set out in the highlights section at the beginning of this report and commentary is provided at the group level in the reviews by the chairman and the chief executive. Segmental results and operating information are set out in the divisional reviews on pages 18 to 43.

**Cashflow and capital expenditure**

At $640 million, cashflow from operating activities before working capital requirements reflected the continued strong performance of the businesses within the group. It included a full year's contribution from the Amatek companies acquired on 1 March 2005. Re-investment in the business through the capital expenditure programme accounted for $266 million, with a mix of 'stay in business' and 'growth and productivity' projects. The major project was the continuation of the Golden Bay Cement manufacturing upgrade. Depreciation for the year was $143 million.

A further $80 million was utilised through increased working capital to support sales growth, and $154 million was distributed to shareholders and minority interests.

The company's guidelines on future dividend declarations require consideration of available cash after allowing for growth requirements and a prudent gearing level.

**Capital management and funding**

The company's strong financial position enabled it to maintain a relatively stable gearing, at 37.1 percent. Whilst this is below the target range of 40 to 50 percent, it positions the company well for the strong re-investment programme proposed, and for potential acquisitions, in the forthcoming year.

# Financial Review

Fletcher Building operates well within all relevant bank and debt covenants, with interest cover (EBITDA to total interest paid) at 9.3 times, down slightly from the previous year.

Net debt was $1,061 million at June 2006 – a reduction of $145 million in cash terms when adjusted for exchange rate movements on translation of Australian debt. The company currently has undrawn bank funding available of just over $500 million.

A United States debt issue with terms of 24 and 43 years was completed during the year, with the aim of improving the company's debt maturity profile and increasing the range of funding sources. The facility is fully drawn and hedged into New Zealand and Australian currencies.

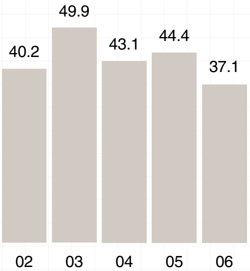
Also during the year, one series of capital notes for $33 million was subject to an interest re-set. In total, a net $50 million of notes were reissued at a lower interest rate.

## Risk management

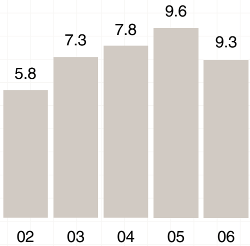
The company has an integrated programme to manage risk associated with movements in interest rates, commodity prices and exchange rates. This aims to ensure a base level of profitability and reduces volatility of earnings. Further details are provided in note 27 of the financial statements.

## Retirement plans

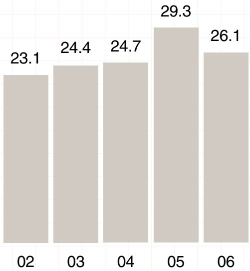
The company operates a number of defined benefit retirement plans for its employees. The largest of these is the New Zealand plan, which has 1,478 members




**Gearing**
Percentage




**Interest cover**
Times




**Return on average funds**
Percentage

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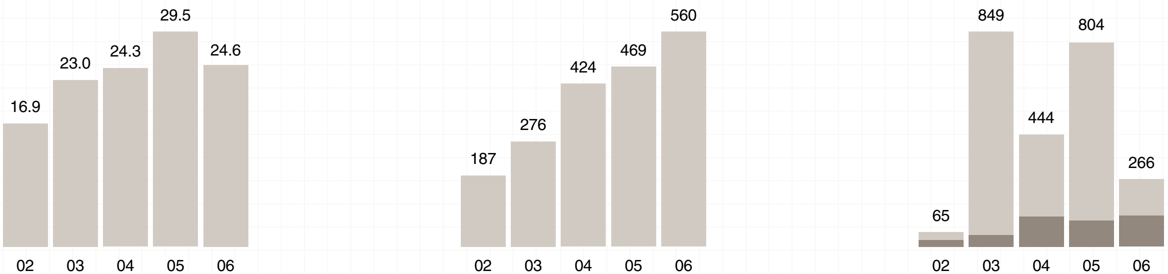
# Financial Review

and pensioners and investments of $309 million. The investments in all plans totalled $533 million at 30 June 2006.

These schemes are accounted for in accordance with NZ IAS19, which has the effect of smoothing volatility in returns by amortising the difference between expected and actual returns over the remaining life of the members. At balance date, $10 million of net gains were to be accounted for in future periods. The New Zealand scheme is currently funded in excess of 120 percent of the projected benefit obligation, and the Australian schemes are funded to their vested benefit level.




**Return on average equity**
Percentage

**Operating cashflow**
NZ$ Millions

**Capital investment**
NZ$ Millions

Capex growth
Capex stay in business

# Earnings Statement

For the year ended 30 June 2006

| | Notes | Fletcher Building Group Year Ended June 2006 NZ$M | Fletcher Building Group Year Ended June 2005 NZ$M | Fletcher Building Limited Year Ended June 2006 NZ$M | Fletcher Building Limited Year Ended June 2005 NZ$M |
|---|---|---|---|---|---|
| Sales | | **5,520** | 4,636 | | |
| Cost of goods sold | | **(4,099)** | (3,304) | | |
| Gross margin | | **1,421** | 1,332 | | |
| Selling and marketing expenses | | **(403)** | (391) | | |
| Administration expenses | | **(372)** | (357) | | |
| Share of profits of associates | 20 | **29** | 27 | | |
| Other investment income | 32 | | | 257 | 187 |
| Other gains/(losses) | | **1** | 2 | | |
| Amortisation of intangibles | 19 | **(1)** | (1) | | |
| Operating earnings (EBIT) | 3 | **675** | 612 | 257 | 187 |
| Funding costs | 5 | **(88)** | (77) | (98) | (58) |
| Earnings before taxation | | **587** | 535 | 159 | 129 |
| Taxation expense | 6 | **(189)** | (166) | 19 | 12 |
| **Earnings after taxation** | | **398** | 369 | 178 | 141 |
| Earnings attributable to minority interests | | **(19)** | (22) | | |
| **Net earnings attributable to the shareholders** | | **379** | 347 | 178 | 141 |

# Earnings Statement continued

For the year ended 30 June 2006

| | Notes | Fletcher Building Group Year Ended June 2006 NZ$M | Fletcher Building Group Year Ended June 2005 NZ$M | Fletcher Building Limited Year Ended June 2006 NZ$M | Fletcher Building Limited Year Ended June 2005 NZ$M |
|---|---|---|---|---|---|
| Net earnings per share (cents) | 8 | | | | |
| Basic | | **81.3** | 77.6 | | |
| Diluted | | **78.6** | 73.2 | | |
| Weighted average number of shares outstanding (millions of shares) | 8 | | | | |
| Basic | | **466** | 447 | | |
| Diluted | | **509** | 504 | | |
| Dividends declared per share (cents) | | **40.0** | 32.0 | | |

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

# Statement of Movements in Equity

For the year ended 30 June 2006

| | Notes | Fletcher Building Group Year Ended June 2006 NZ$M | Fletcher Building Group Year Ended June 2005 NZ$M | Fletcher Building Limited Year Ended June 2006 NZ$M | Fletcher Building Limited Year Ended June 2005 NZ$M |
|---|---|---|---|---|---|
| **Total equity** | | | | | |
| At the beginning of the period as previously published | | **1,485** | 1,118 | 1,442 | 1,078 |
| Changes on adoption of NZ IFRS | 1, 37 | **(58)** | (72) | (559) | (382) |
| At the beginning of the period as restated | | **1,427** | 1,046 | 883 | 696 |
| Changes on adoption of NZ IFRS at 1 July 2005 | 1, 37 | **3** | | 3 | |
| Equity at 1 July 2005 as stated under NZ IFRS | | **1,430** | 1,046 | 886 | 696 |
| Movement in the cashflow hedge reserve | 12 | | | | |
| Movement in currency translation reserve | 12 | **116** | (12) | | |
| Income and expenses recognised directly in equity | | **116** | (12) | | |
| Net earnings attributable to the shareholders as previously published | | | 330 | | 140 |
| Changes on adoption of NZ IFRS | 1, 37 | | 17 | | 1 |
| Net earnings attributable to the shareholders as stated under NZ IFRS | 12 | **379** | 347 | 178 | 141 |
| Net earnings attributable to minority interests | 13 | **19** | 22 | | |
| Net earnings | | **398** | 369 | 178 | 141 |
| **Total recognised income and expenses for the year** | | **514** | 357 | 178 | 141 |

# Statement of Movements in Equity continued

For the year ended 30 June 2006

| | Notes | Fletcher Building Group Year Ended June 2006 NZ$M | Fletcher Building Group Year Ended June 2005 NZ$M | Fletcher Building Limited Year Ended June 2006 NZ$M | Fletcher Building Limited Year Ended June 2005 NZ$M |
|---|---|---|---|---|---|
| Movement in minority equity | 13 | **(18)** | (19) | | |
| Movement in reported capital | 10 | **44** | 178 | 44 | 178 |
| Transfer from share option reserve to reported capital | 12 | | (1) | | (1) |
| Dividends | 9 | **(167)** | (131) | (167) | (131) |
| Less movement in shares held under the treasury stock method | 10 | **(3)** | (3) | | |
| **Total equity** | | **1,800** | 1,427 | 941 | 883 |

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

# Balance Sheet

As at 30 June 2006

| | Notes | Fletcher Building Group June 2006 NZ$M | Fletcher Building Group June 2005 NZ$M | Fletcher Building Limited June 2006 NZ$M | Fletcher Building Limited June 2005 NZ$M |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Current assets: | | | | | |
| Cash and liquid deposits | 14 | **49** | 52 | 1 | 12 |
| Current tax asset | 24 | **34** | (1) | 19 | 12 |
| Debtors | 15 | **913** | 817 | 22 | 12 |
| Stocks | 16 | **703** | 616 | | |
| Total current assets | | **1,699** | 1,484 | 42 | 36 |
| Non-current assets: | | | | | |
| Fixed assets | 17 | **1,569** | 1,392 | | |
| Goodwill | 18 | **347** | 309 | | |
| Intangibles | 19 | **250** | 205 | | |
| Investments in associates | 20 | **113** | 103 | | |
| Investments – other | 20 | **16** | 16 | 2,868 | 2,298 |
| Deferred taxation asset | 24 | **105** | 148 | | 1 |
| Advances to subsidiaries | 32 | | | 424 | 383 |
| Total non-current assets | | **2,400** | 2,173 | 3,292 | 2,682 |
| **Total assets** | | **4,099** | 3,657 | 3,334 | 2,718 |

# Balance Sheet continued

As at 30 June 2006

| | | Fletcher Building Group | | Fletcher Building Limited | |
|---|---|---|---|---|---|
| | Notes | June 2006 NZ$M | June 2005 NZ$M | June 2006 NZ$M | June 2005 NZ$M |
| **Liabilities** | | | | | |
| Current liabilities: | | | | | |
| Short-term loans | | **21** | 6 | 21 | 3 |
| Provisions | 21 | **59** | 54 | 2 | 2 |
| Creditors and accruals | 22 | **876** | 761 | 71 | 11 |
| Contracts | 23 | **103** | 93 | | |
| Capital notes | 25 | **88** | 33 | 88 | 33 |
| Term debt | 26 | **60** | 292 | | 254 |
| Advances from subsidiaries | 32 | | | 2,038 | 1,100 |
| Total current liabilities | | **1,207** | 1,239 | 2,220 | 1,403 |
| Non-current liabilities: | | | | | |
| Provisions | 21 | **12** | 10 | | |
| Creditors and accruals | 22 | **63** | 58 | | |
| Deferred taxation liability | 24 | **76** | 62 | 1 | |
| Capital notes | 25 | **311** | 314 | 162 | 167 |
| Term debt | 26 | **630** | 547 | 10 | 265 |
| Total non-current liabilities | | **1,092** | 991 | 173 | 432 |
| **Total liabilities** | | **2,299** | 2,230 | 2,393 | 1,835 |

# Balance Sheet continued

As at 30 June 2006

| | Notes | Fletcher Building Group June 2006 NZ$M | Fletcher Building Group June 2005 NZ$M | Fletcher Building Limited June 2006 NZ$M | Fletcher Building Limited June 2005 NZ$M |
|---|---|---|---|---|---|
| **Equity** | | | | | |
| Reported capital | 10 | **970** | 929 | 976 | 932 |
| Revenue reserves | 11,12 | **679** | 467 | (38) | (49) |
| Other reserves | 11,12 | **107** | (12) | 3 | |
| Shareholders' funds | | **1,756** | 1,384 | 941 | 883 |
| Minority equity | 13 | **44** | 43 | | |
| **Total equity** | | **1,800** | 1,427 | 941 | 883 |
| **Total liabilities and equity** | | **4,099** | 3,657 | 3,334 | 2,718 |

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

| | Fletcher Building Group | | Fletcher Building Limited | |
|---|---|---|---|---|
| | Year Ended June 2006 NZ$M | Year Ended June 2005 NZ$M | Year Ended June 2006 NZ$M | Year Ended June 2005 NZ$M |
| Cashflow from operating activities | | | | |
| Receipts from customers | **5,498** | 4,641 | 65 | 12 |
| Dividends received | **28** | 27 | 216 | 166 |
| Interest received | **3** | 2 | 42 | 21 |
| Total received | **5,529** | 4,670 | 323 | 199 |
| Payments to suppliers, employees and other | **4,771** | 3,974 | | |
| Interest paid | **88** | 77 | 104 | 55 |
| Income tax paid | **110** | 140 | | |
| Total applied | **4,969** | 4,191 | 104 | 55 |
| **Net cash from operating activities** | **560** | 479 | 219 | 144 |
| Cashflow from investing activities | | | | |
| Sale of fixed assets | **6** | 11 | | |
| Sale of investments | | 8 | | |
| Total received | **6** | 19 | | |
| Purchase of fixed assets | **226** | 196 | | |
| Purchase of investments | **12** | 18 | | |
| Purchase of subsidiaries | **28** | 609 | | |
| (Cash)/net debt in subsidiaries acquired | | (19) | | |
| Total applied | **266** | 804 | | |
| **Net cash from investing activities** | **(260)** | (785) | | |

# Statement of Cashflows continued

For the year ended 30 June 2006

| | Fletcher Building Group | | Fletcher Building Limited | |
|---|---|---|---|---|
| | Year Ended June 2006 NZ$M | Year Ended June 2005 NZ$M | Year Ended June 2006 NZ$M | Year Ended June 2005 NZ$M |
| Cashflow from financing activities | | | | |
| Net debt drawdowns/(settlements) | **(201)** | 323 | (491) | 317 |
| Issue of shares | | 140 | | 140 |
| Advances from subsidiaries | | | 339 | (473) |
| Reissue of capital notes | **64** | | 64 | |
| Total received | **(137)** | 463 | (88) | (16) |
| Repurchase of capital notes | **14** | 50 | 14 | 50 |
| Distribution to minority shareholders | **26** | 31 | | |
| Dividends | **128** | 100 | 128 | 100 |
| Total applied | **168** | 181 | 142 | 150 |
| **Net cash from financing activities** | **(305)** | 282 | (230) | (166) |
| Net movement in cash held | **(5)** | (24) | (11) | (22) |
| Add opening cash and liquid deposits | **52** | 77 | 12 | 34 |
| Effect of exchange rate changes on net cash | **2** | (1) | | |
| **Closing cash and liquid deposits** | **49** | 52 | 1 | 12 |

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

# Statement of Cashflows continued

For the year ended 30 June 2006

| | Fletcher Building Group | |
|---|---|---|
| | Year Ended June 2006 NZ$M | Year Ended June 2005 NZ$M |
| **Analysis of subsidiaries acquired** [1] | | |
| Fixed assets | **16** | 318 |
| Goodwill on acquisition | **13** | 61 |
| Less contingent consideration | **(2)** | |
| Intangibles | | 41 |
| Investments | | 12 |
| Tax assets | | 83 |
| Current assets | **5** | 235 |
| Cash in subsidiary | | 19 |
| Current liabilities | **(4)** | (160) |
| Cash paid to date for subsidiaries acquired | **28** | 609 |

[1] During the year ended 30 June 2006 the O'Brien group was acquired for $23 million and other subsidiaries for $5 million. In the prior year the Amatek group was acquired on 1 March 2005 for $581 million, net of $19 million cash on hand, and other subsidiaries were acquired for $9 million.

# Statement of Cashflows continued

For the year ended 30 June 2006

| | Final Fair Values at June 2006 NZ$M | Estimate of Fair Values June 2005 NZ$M | Movement Recognised as a Fair Value Adjustment this year NZ$M |
|---|---|---|---|
| **Amatek acquisition 1 March 2005** [2] | | | |
| Fixed assets | **313** | 314 | (1) |
| Goodwill on acquisition | **57** | 63 | (6) |
| Intangibles | **62** | 41 | 21 |
| Investments | **11** | 8 | 3 |
| Tax assets/(liabilities) | **73** | 84 | (11) |
| Current assets | **229** | 231 | (2) |
| Cash held in Amatek | **19** | 19 | |
| Current liabilities | **(164)** | (160) | (4) |
| Cash paid for acquisition of Amatek | **600** | 600 | |

[2] The Amatek fair value exercise was completed during the year ended 30 June 2006 and values allocated were in line with the valuers final report as shown above.

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

| | Fletcher Building Group | | Fletcher Building Limited | |
|---|---|---|---|---|
| | Year Ended June 2006 NZ$M | Year Ended June 2005 NZ$M | Year Ended June 2006 NZ$M | Year Ended June 2005 NZ$M |
| Cash was received from: | | | | |
| Net earnings | **379** | 347 | 178 | 141 |
| Earnings attributable to minority interests | **19** | 22 | | |
| | **398** | 369 | 178 | 141 |
| Adjustment for items not involving cash: | | | | |
| Depreciation, depletions, amortisation and provisions | **161** | 141 | | |
| Taxation | **79** | 26 | (19) | (12) |
| Non-cash adjustments | **240** | 167 | (19) | (12) |
| Cashflow from operations [1] | **638** | 536 | 159 | 129 |
| Less (gain)/loss on disposal of affiliates and fixed assets | **2** | | | |
| Cashflow from operations before net working capital movements | **640** | 536 | 159 | 129 |
| Net working capital movements | **(80)** | (57) | 60 | 15 |
| **Net cash from operating activities [2]** | **560** | 479 | 219 | 144 |
| **Net working capital movements:** | | | | |
| Debtors | **(32)** | (40) | (5) | 9 |
| Stocks | **(58)** | (66) | | |
| Contracts | **8** | 19 | | |
| Creditors | **2** | 30 | 65 | 6 |
| | **(80)** | (57) | 60 | 15 |

1 Includes loss on disposal of affiliates and fixed assets.

2 As per the statement of cashflows.

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

# Statement of Accounting Policies

For the year ended 30 June 2006

## Basis of presentation

The financial statements presented are those of Fletcher Building Limited (the company) and its subsidiaries (the group). Fletcher Building 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 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 group'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 group'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 group 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.

The accounting policies have been applied consistently by all group entities, except as disclosed in note 1, on changes in accounting policies.

## Segmental reporting

Segmental information is presented in respect of the group's industry and geographical segments. The primary format, industry segments, is based on the group's management and internal reporting structure, which recognises groups of assets and operations with similar risks and returns. Inter-segment pricing is determined on an arm's length basis.

# Statement of Accounting Policies

For the year ended 30 June 2006

## 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 sales and expenses during the reporting period. Actual results could differ from those estimates. The estimates and assumptions are reviewed on an ongoing basis.

## Basis of consolidation

The consolidated financial statements comprise the company and its subsidiaries and the group's interest in associates, partnerships and joint ventures. Inter-company transactions are eliminated in preparing the consolidated financial statements.

### Subsidiaries

Subsidiaries are included in the consolidated financial statements using the purchase method of consolidation, from the date control commences until the date control ceases.

### Associates

The equity method has been used for associate entities in which the group has a significant but not controlling interest.

### Goodwill on acquisition

Fair values are assigned to the identifiable assets and liabilities of subsidiaries and associates of the group at the date they are acquired. Goodwill arises to the extent of the excess of the cost of the acquisition over the fair value of the assets and liabilities.

Goodwill is stated at cost, less any impairment losses. Goodwill is allocated to cash generating units and is no longer amortised, but is tested annually for impairment. Goodwill in respect of associates is included in the carrying amount of associates. Negative goodwill, or a discount on acquisition is recognised directly in earnings on acquisition.

### Joint ventures and partnerships

Where the ownership interest in the joint venture is in the net residue of the business and does not give rise to an economic or controlling interest in excess of 50 percent, the share of the net assets and liabilities and earnings of the investment is included on an equity basis. If the interest does give rise to a controlling interest in excess of 50 percent, the investment is consolidated.

Joint ventures in which the ownership interest is directly in the assets and liabilities, rather than the net residue, are included on a proportional basis with assets, liabilities, revenues and expenses based on the group's proportional interest.

## Valuation of assets

### Land, buildings, plant & machinery, fixtures and equipment

The cost of purchasing land, buildings, plant and machinery, fixtures and equipment is the value of the consideration given to acquire the assets and the value of other directly attributable costs which have been incurred in bringing the assets to the location and the condition necessary for their intended service, including subsequent expenditure.

# Statement of Accounting Policies

For the year ended 30 June 2006

The costs of self constructed assets include, where appropriate, the costs of all materials used in construction, direct labour on the project, site preparation and installation costs, costs of obtaining resource consents, financing costs that are directly attributable to the project, variable and fixed overheads and unrecovered operating costs incurred during planned commissioning. Costs cease to be capitalised as soon as the asset is ready for productive use. All feasibility costs are expensed as incurred.

Leases in which the group assumes substantially all the risks and rewards of ownership are classified as finance leases and are measured at the lower of their fair value or the present value of the minimum lease payments at the inception of the lease.

Certain items of land, buildings, and plant and machinery that had been revalued to fair value prior to 30 June 2004 are, upon adoption of NZ IFRS, measured on the basis of deemed historic cost. Fixtures and equipment, and leased assets are measured at cost.

Land, buildings, plant and machinery, leased assets and fixtures and equipment are stated at cost, less accumulated depreciation.

**Investments**

Investments are valued at historical cost. Impairments in the value of investments are written off to earnings as they arise.

**Stocks**

Trading stock, raw materials and work in progress are valued at the lower of cost or net realisable value, determined principally on the first-in, first-out basis. Cost includes direct manufacturing costs and manufacturing overheads at normal operating levels.

**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.

**Construction work in progress**

Construction work in progress is stated at cost plus profit recognised to date, less progress billings and any provision for foreseeable losses. Cost includes all expenditure directly related to specific projects and an allocation of fixed and variable overheads incurred in the group's contract activities based on normal operating capacity.

**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.

**Impairment**

Impairment is deemed to occur when the recoverable amount falls below the book value of the asset. The recoverable amount is determined to be the greater of the fair value, less disposal costs or the sum of expected future discounted net cashflows arising from the ownership of the asset. Future net cashflows take into account the remaining useful life and the expected period of continued ownership, including any intended disposals, and any costs or proceeds expected to eventuate at the

# Statement of Accounting Policies

For the year ended 30 June 2006

end of the remaining useful life or the end of the expected period of continued ownership.

For the purposes of considering whether there has been an impairment, assets are grouped at the lowest level for which there are identifiable cashflows that are largely independent of the cashflows of other groups of assets. When the book value of a group of assets exceeds the recoverable amount an impairment loss arises and is recognised in earnings immediately.

Goodwill and brands with an indefinite life are tested for impairment in June of each year and as at June 2006 no indication of impairment existed. Other assets are tested for impairment when an indication of impairment exists.

### Brands

Brands for which all relevant factors indicate that there is no limit to the foreseeable net cashflows, are considered to have an indefinite useful life and are held at cost and are not amortised, but are subject to an annual impairment test.

### Retirement plans

The group's net asset in respect of its retirement plans is calculated separately for each plan by an independent actuary, as being the fair value of the plan's assets less the present value of the future obligations to the members. The value of the asset recognised cannot exceed in aggregate the total value of any unrecognised losses, and the present value of any future refunds from the plans or reductions in future contributions to the plans.

## Foreign currency

### Translation of the financial statements of foreign operations

The assets and liabilities of the group'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 and liabilities in foreign currencies are translated at the exchange rates in effect when the amounts of these assets and liabilities 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. Exchange differences which arose prior to 30 June 2004 have, upon adoption of NZ IFRS, been transferred to retained earnings.

# Statement of Accounting Policies

For the year ended 30 June 2006

## Valuation of liabilities

### Derivative financial instruments

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

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

The fair values of derivative financial instruments, as disclosed in the financial instrument note, are determined by applying quoted market prices.

The group 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 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 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 of 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 derivative 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.

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# Statement of Accounting Policies

For the year ended 30 June 2006

### Taxation

The provision for current tax is the estimated amount due for payment during the next 12 months by the group. 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.

The deferred tax liability on brands has been recognised separately from other deferred tax items, as the brands have an indefinite life and the deferred tax liability will not crystallise, except in the event of a write-down in the value of the brands.

### Finance leases

Finance leases are capitalised to reflect the term borrowing incurred and the cost of the asset acquired. Such obligations are classified within term debt. The finance cost portion of lease payments is written off to earnings. The leased asset is depreciated on a straight line basis over the estimated useful life of the asset with regard to residual values.

### 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 estimated liability where accrued.

### Provisions

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

## 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. Where a member of the group purchases the company's share capital the consideration paid is deducted from equity under the treasury stock method as if the shares are cancelled, until they are reissued or otherwise disposed of.

## Income determination

### Sales recognition

Sales are recognised in accordance with the terms of sale when the benefits of ownership and risk of loss passes to the customer. Earnings on residential land contracts are recognised on settlement.

### Construction contracts

Earnings on construction contracts (including sub-contracts) are determined using the percentage-of-completion method. Earnings are not recognised until the outcome can be reliably estimated. The company uses its professional judgement to assess both the physical completion and the forecast financial result of the contract. Provision is made for estimated future losses on the entire contract from the date it is first recognised that a contract loss may be incurred.

# Statement of Accounting Policies

For the year ended 30 June 2006

**Investment revenue**
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.

**Depreciation**
Depreciation of fixed assets is calculated on the straight line method. Expected useful lives, which are regularly reviewed on a weighted average basis are:

| | |
|---|---|
| Buildings | 30 years |
| Plant and machinery | 13 years |
| Fixtures and equipment | 5 years |
| Leased assets capitalised | 10 years |

**Leasing commitments**
Expenditure arising from operating leasing commitments is written off to earnings in the period in which it is incurred.

**Retirement plan expense**
Obligations for contributions to defined contribution plans are recognised in earnings as incurred. The actuarial cost of providing benefits under defined benefit plans is expensed as it accrues over the service life of the employees, after taking account of the income expected to be earned by the assets owned by the plan.

All actuarial losses at 30 June 2004, being the date of transition to NZ IFRS, were written off to retained earnings. Any actuarial gains or losses since 30 June 2004 are amortised to earnings over the remaining average service life of plan members employed by the group.

**Long service leave**
Long service leave is recognised in earnings on an actuarial basis.

**Research and development**
Expenditure on research activities is recognised in earnings as incurred.

**Employee share purchase scheme**
The employee share purchase scheme allows group employees to acquire shares in the company at a discount to the market price, funded by an interest free loan from the group. The fair value of the discount is measured at the grant date and this is expensed to earnings immediately.

Dividends are paid in cash to the employees who repay the loan from their weekly earnings. The shares are held in trust for the employees by the trustee, Fletcher Building Share Schemes Limited, until they vest after a three year restricted period. The group recognises the receivable owing from the employees in other receivables.

# Statement of Accounting Policies

For the year ended 30 June 2006

**Executive performance share scheme**

The executive performance share scheme allows group executives to acquire shares in the company at market price, funded by an interest free loan from the group. The executives are entitled to vote on the shares and to receive cash dividends, the proceeds of which are used to repay the loan. The shares are held in trust for the executives by the trustee, Fletcher Building Share Schemes Limited.

At the end of the three year restricted period the group will pay a bonus to the executives to the extent that performance targets have been met, the after tax amount of which will be sufficient for the executives to repay the balance of the loan for the shares which vest.

If the performance obligations are not met or are only partially met, the trustee will acquire the beneficial interest in some or all of the shares. The loan provided in respect of those shares which do not transfer to the executives (the forfeited shares) will be novated to the trustee and will be fully repaid by the transfer of the forfeited shares.

The group will recognise an expense in earnings over the three year restricted period to provide for the maximum bonus payable.

The group is accounting for the executive performance share scheme under the treasury stock method. The receivable owing from the executives, representing the shares held in the group is deducted from the group's paid up capital. If the performance targets are not met and the shares do not vest, the after tax amount of the bonus provision will be transferred to equity and will not be released to earnings. The shares will continue to be deducted from equity until they are disposed of by the trustee. To the extent that the performance targets are met and the shares vest, the bonus will be paid enabling repayment of the loan, and to the extent of this loan repayment paid up capital will increase.

# Notes to the Financial Statements

## 1 Changes in accounting policies and International Financial Reporting Standards

**International Financial Reporting Standards (IFRS)**

In December 2002, the New Zealand Accounting Standards Review Board announced that New Zealand standards which comply with International Financial Reporting Standards (NZ IFRS) will apply to New Zealand entities for periods commencing 1 January 2007. Entities also had the option of early adoption from 1 January 2005, in line with Australian and European requirements. The group has prepared these financial statements using NZ IFRS and has restated the comparative financial statements as per note 37.

**Changes in accounting policies**

The group has elected to comply with Amendment to International Accounting Standard No. 19 Employee Benefits, prior to its mandatory implementation date. This has not changed the measurement of the group's results, but has resulted in increased disclosure obligations as per note 34. In addition the International Accounting Standards Board has issued a number of other standards, amendments and interpretations which are not yet effective. The group has not yet applied these in preparing these financial statements although the application of these standards, amendments and interpretations would require further disclosures but is not expected to have a material impact on the group's results.

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.

# Notes to the Financial Statements

## 2 Acquisition of subsidiaries

The O'Brien group was acquired on 1 May 2006 for $23 million and other subsidiaries were acquired for $5 million. A formal fair value exercise was undertaken which resulted in the fair value of the assets and liabilities as described in the statement of cashflows. In the period to 30 June 2006 these acquired subsidiaries contributed operating earnings of $1 million to the group. If the acquisitions had occurred on 1 July 2005, it is estimated that group revenue would have increased by $30 million and operating earnings by $6 million. Goodwill on acquisition represents the value in the business attributable to its expected profitability.

| | Vendors Book Value NZ$M | Fair Value Adjustment NZ$M | Fair Value NZ$M |
|---|---|---|---|
| **Acquiree's net assets at the acquisition date** | | | |
| Fixed assets | 16 | | 16 |
| Goodwill on acquisition | | 13 | 13 |
| Current assets | 5 | | 5 |
| Current liabilities | (4) | | (4) |
| Less contingent consideration | | (2) | (2) |
| | 17 | 11 | 28 |

# Notes to the Financial Statements

| | Fletcher Building Group | | Fletcher Building Limited | |
|---|---|---|---|---|
| | Year Ended June 2006 NZ$M | Year Ended June 2005 NZ$M | Year Ended June 2006 NZ$M | Year Ended June 2005 NZ$M |
| **3 Operating earnings** | | | | |
| Operating earnings includes: | | | | |
| Net loss on disposal of fixed assets | **2** | 1 | | |
| Net periodic pension cost/(benefit) | **16** | 6 | | |
| Employee related short-term costs [1] | **840** | 679 | | |
| Other long-term employee related benefits | **22** | 21 | | |
| Directors' fees | **1** | 1 | | |
| Research and development | **2** | 2 | | |
| Bad debts written off | **5** | 5 | | |
| Foreign exchange in trading accounts | **(1)** | | | |
| Donations and sponsorships | **1** | 1 | | |
| Maintenance and repairs | **131** | 110 | | |
| Operating lease expense | **88** | 77 | | |
| Auditors' fees and expenses payable for: | | | | |
| Statutory audit | **2** | 2 | | |
| Other services [2] | | | | |

[1] Remuneration for the executive committee included in the above is disclosed in note 32.

[2] Fees of $400,000 (2005 $400,000) were paid to the auditors during the year for other services, consisting mainly of the half year review.

# Notes to the Financial Statements

| | Fletcher Building Group | | Fletcher Building Limited | |
|---|---|---|---|---|
| | Year Ended June 2006 NZ$M | Year Ended June 2005 NZ$M | Year Ended June 2006 NZ$M | Year Ended June 2005 NZ$M |

## 4 Discontinued operations

There were no discontinued operations in either the current or the comparative years.

## 5 Funding costs

| | Group 2006 NZ$M | Group 2005 NZ$M | Limited 2006 NZ$M | Limited 2005 NZ$M |
|---|---|---|---|---|
| Interest payable on: | | | | |
| Term debt | **53** | 39 | 14 | 18 |
| Short-term loans and bank overdrafts | **3** | 3 | 1 | 1 |
| Capital notes | **31** | 33 | 18 | 21 |
| Interest paid to subsidiary companies | | | 64 | 17 |
| Income from short-term deposits | **(3)** | (2) | (1) | (2) |
| | **84** | 73 | 96 | 55 |
| Plus bank fees, registry and issue expenses | **4** | 4 | 2 | 3 |
| | **88** | 77 | 98 | 58 |

# Notes to the Financial Statements

| | Fletcher Building Group | | Fletcher Building Limited | |
|---|---|---|---|---|
| | Year Ended June 2006 NZ$M | Year Ended June 2005 NZ$M | Year Ended June 2006 NZ$M | Year Ended June 2005 NZ$M |
| **6 Taxation expense** | | | | |
| Earnings before taxation: | | | | |
| New Zealand | **369** | 384 | 159 | 129 |
| Overseas | **218** | 151 | | |
| | **587** | 535 | 159 | 129 |
| Taxation at 33 cents per dollar | **194** | 177 | 52 | 43 |
| Adjusted for: | | | | |
| Benefit of lower tax rates in overseas jurisdictions | **(5)** | (3) | | |
| Non-assessable income | **(8)** | (9) | (71) | (55) |
| Non-deductible expenses | **5** | | | |
| Other permanent differences | **3** | 1 | | |
| | **189** | 166 | (19) | (12) |
| **Current taxation**: | | | | |
| New Zealand | **143** | 135 | (19) | (12) |
| Overseas | **48** | 36 | | |
| **Deferred taxation:** | | | | |
| New Zealand | **(1)** | (3) | | |
| Overseas | **(1)** | (2) | | |
| | **189** | 166 | (19) | (12) |

# Notes to the Financial Statements

## 7 Shareholder tax credits

| | Fletcher Building Group | | Fletcher Building Limited | |
|---|---|---|---|---|
| | Year Ended June 2006 NZ$M | Year Ended June 2005 NZ$M | Year Ended June 2006 NZ$M | Year Ended June 2005 NZ$M |
| **Imputation credit account** | | | | |
| Imputation credits at the beginning of the year | **140** | 74 | | |
| Taxation paid | **18** | 65 | | |
| Imputation credits received | **1** | 1 | | |
| | **159** | 140 | | |
| | A$M | A$M | A$M | A$M |
| **Franking credit account** | | | | |
| Franking credits at the beginning of the year | **3** | 10 | | 2 |
| Taxation paid | **18** | 17 | | |
| Franking credits received | | | 14 | 22 |
| Franking credits attached to capital notes interest paid | **(1)** | (1) | (1) | (1) |
| Franking credits attached to dividends paid | **(13)** | (23) | (13) | (23) |
| | **7** | 3 | | |

# Notes to the Financial Statements

## 7 Shareholder tax credits continued

| | Fletcher Building Group | | Fletcher Building Limited | |
|---|---|---|---|---|
| | Year Ended June 2006 NZ$M | Year Ended June 2005 NZ$M | Year Ended June 2006 NZ$M | Year Ended June 2005 NZ$M |
| **Dividend withholding payment credit account** | | | | |
| Dividend withholding payment credits at the beginning of the year | **(32)** | (23) | (34) | (23) |
| Taxation paid | **72** | 55 | | |
| Dividend withholding payment credits received | | | 74 | 53 |
| Dividend withholding payment credits attached to dividends paid | **(52)** | (64) | (52) | (64) |
| | **(12)** | (32) | (12) | (34) |
| Dividend withholding payment credits available to shareholders at year end are: | | | | |
| Parent company | **(12)** | (34) | (12) | (34) |
| Subsidiary companies | | 2 | | |
| | **(12)** | (32) | (12) | (34) |

Fletcher Building Limited has until 31 March 2007 to fund any deficiency in its dividend withholding payment credit account.

| | Fletcher Building Group | | Fletcher Building Limited | |
|---|---|---|---|---|
| | Year Ended June 2006 NZ$M | Year Ended June 2005 NZ$M | Year Ended June 2006 NZ$M | Year Ended June 2005 NZ$M |
| **Branch equivalent tax account** | | | | |
| Branch equivalent tax account at 1 April 2005 | **74** | 46 | | |
| Benefit received from dividend withholding payment tax paid | **72** | 55 | | |
| Utilisation of branch equivalent tax account to offset tax liabilities for the 2005 income year | **(42)** | (27) | | |
| Branch equivalent tax account at 31 March 2006 | **104** | 74 | | |

On 14 June 2006, certain subsidiaries elected to credit the total balance of the branch equivalent tax account giving rise to a tax benefit of $70 million.

# Notes to the Financial Statements

| | Fletcher Building Group | | Fletcher Building Limited | |
|---|---|---|---|---|
| | Year Ended June 2006 NZ$M | Year Ended June 2005 NZ$M | Year Ended June 2006 NZ$M | Year Ended June 2005 NZ$M |

## 8 Net earnings per share

Diluted net earnings per share uses the weighted average number of shares used for basic net earnings per share, adjusted for dilutive securities. Capital notes and options are convertible into the company's shares, and are therefore considered dilutive securities for diluted net earnings per share. Fletcher Building may, at its option, purchase or redeem the capital notes for cash at the principal amount plus any accrued but unpaid interest.

| | Year Ended June 2006 NZ$M | Year Ended June 2005 NZ$M | | |
|---|---|---|---|---|
| **Numerator** | | | | |
| Net earnings | **379** | 347 | | |
| Numerator for basic earnings per share | **379** | 347 | | |
| Dilutive capital notes distribution | **21** | 22 | | |
| **Numerator for diluted net earnings per share** | **400** | 369 | | |
| **Denominator (millions of shares)** | | | | |
| Denominator for basic net earnings per share | **466** | 447 | | |
| Conversion of dilutive capital notes | **43** | 57 | | |
| **Denominator for diluted net earnings per share** | **509** | 504 | | |

## 9 Dividends

| | Group 2006 | Group 2005 | Limited 2006 | Limited 2005 |
|---|---|---|---|---|
| Dividends paid to shareholders | **167** | 131 | 167 | 131 |
| | **167** | 131 | 167 | 131 |

On 9 August 2006 the directors approved the payment of a dividend of 21 cents per share payable on 12 October 2006.

# Notes to the Financial Statements

## 10 Capital

| | Fletcher Building Group | | Fletcher Building Limited | |
|---|---|---|---|---|
| | Year Ended June 2006 NZ$M | Year Ended June 2005 NZ$M | Year Ended June 2006 NZ$M | Year Ended June 2005 NZ$M |
| Reported capital at the beginning of the year | **932** | 754 | 932 | 754 |
| Issue of shares | **44** | 181 | 44 | 181 |
| Cost of share issue | | (3) | | (3) |
| Reported capital at the end of the year including treasury stock | **976** | 932 | 976 | 932 |
| Treasury stock | **(6)** | (3) | | |
| | **970** | 929 | 976 | 932 |

All ordinary shares are issued and fully paid, and carry equal rights in respect of voting, dividend payments and distribution upon winding up. The shares have no par value. Costs directly attributable to the issue of new shares are shown as a deduction from the proceeds. Shares held by the trustee of the Fletcher Building executive performance share scheme are deducted from the group's capital until the shares vest, are reissued or otherwise disposed of. When such shares do vest, are reissued or otherwise disposed of any consideration received is included in the group's equity.

# Notes to the Financial Statements

## 10 Capital continued

| | Fletcher Building Group | | Fletcher Building Limited | |
|---|---|---|---|---|
| | Year Ended June 2006 | Year Ended June 2005 | Year Ended June 2006 | Year Ended June 2005 |
| **Number of ordinary shares:** | | | | |
| Number of shares on issue at the beginning of the year | **464,146,348** | 436,837,501 | 464,146,348 | 436,837,501 |
| Issue of shares | | 21,000,000 | | 21,000,000 |
| Shares issued under the dividend reinvestment plan | **5,316,663** | 6,308,847 | 5,316,663 | 6,308,847 |
| Total number of shares on issue | **469,463,011** | 464,146,348 | 469,463,011 | 464,146,348 |
| Less accounted for as treasury stock | **(777,489)** | (426,599) | | |
| | **468,685,522** | 463,719,749 | 469,463,011 | 464,146,348 |

## 11 Reserve balances

| | Fletcher Building Group | | Fletcher Building Limited | |
|---|---|---|---|---|
| | June 2006 NZ$M | June 2005 NZ$M | June 2006 NZ$M | June 2005 NZ$M |
| Reserves comprise: | | | | |
| Retained earnings | **679** | 467 | (38) | (49) |
| Cashflow hedge reserve | **3** | | 3 | |
| Currency translation reserve | **104** | (12) | | |
| | **786** | 455 | (35) | (49) |

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## 12 Reserve movements

| | Fletcher Building Group | | Fletcher Building Limited | |
|---|---|---|---|---|
| | Year Ended June 2006 NZ$M | Year Ended June 2005 NZ$M | Year Ended June 2006 NZ$M | Year Ended June 2005 NZ$M |
| **Retained earnings** | | | | |
| Retained earnings at the beginning of the year | **467** | 315 | (49) | (47) |
| Adjustments to reserve upon first time adoption of NZ IFRS | | (64) | | (12) |
| Net earnings for the year – parent interest | **379** | 347 | 178 | 141 |
| Dividends paid during the year | **(167)** | (131) | (167) | (131) |
| | **679** | 467 | (38) | (49) |
| **Asset revaluation reserve – land and buildings** | | | | |
| Asset revaluation reserve at the beginning of the year | | 13 | | |
| Adjustments to reserve upon first time adoption of NZ IFRS | | (13) | | |
| | | | | |
| **Asset revaluation reserve – plant and machinery** | | | | |
| Asset revaluation reserve at the beginning of the year | | 33 | | |
| Adjustments to reserve upon first time adoption of NZ IFRS | | (33) | | |
| | | | | |

# Notes to the Financial Statements

| | Fletcher Building Group | | Fletcher Building Limited | |
|---|---|---|---|---|
| | Year Ended June 2006 NZ$M | Year Ended June 2005 NZ$M | Year Ended June 2006 NZ$M | Year Ended June 2005 NZ$M |
| **12 Reserve movements continued** | | | | |
| **Investment revaluation** | | | | |
| Investment revaluation reserve at the beginning of the year | | | | 360 |
| Adjustments to reserve upon first time adoption of NZ IFRS | | | | (360) |
| | | | | |
| **Currency translation reserve** | | | | |
| Currency translation reserve at the beginning of the year | **(12)** | (38) | | 10 |
| Adjustments to reserve upon first time adoption of NZ IFRS | | 38 | | (10) |
| Arising in the year and included in the carrying amount of an asset | **116** | (12) | | |
| | **104** | (12) | | |
| **Share option reserve** | | | | |
| Share option reserve at the beginning of the year | | 1 | | 1 |
| Transfer to capital | | (1) | | (1) |
| | | | | |
| **Cashflow hedge reserve** | | | | |
| Arising in the period | **3** | | 3 | |
| | **3** | | 3 | |

# Notes to the Financial Statements

| | Fletcher Building Group | | Fletcher Building Limited | |
|---|---|---|---|---|
| | June 2006 NZ$M | June 2005 NZ$M | June 2006 NZ$M | June 2005 NZ$M |
| **13 Minority equity** | | | | |
| Share capital | **29** | 27 | | |
| Reserves | **15** | 16 | | |
| | **44** | 43 | | |
| **14 Cash and liquid deposits** | | | | |
| Cash and bank balances | **49** | 48 | 1 | 10 |
| Short-term deposits | | 4 | | 2 |
| | **49** | 52 | 1 | 12 |
| **15 Debtors** | | | | |
| Trade debtors | **689** | 665 | | |
| Contract debtors | **97** | 70 | | |
| Contract retentions | **11** | 17 | | |
| Less provision for doubtful debts | **(21)** | (20) | | |
| Other receivables | **137** | 85 | 22 | 12 |
| | **913** | 817 | 22 | 12 |

# Notes to the Financial Statements

| | Fletcher Building Group | | Fletcher Building Limited | |
|---|---|---|---|---|
| | June 2006 NZ$M | June 2005 NZ$M | June 2006 NZ$M | June 2005 NZ$M |
| **16 Stocks** | | | | |
| Raw materials | **185** | 160 | | |
| Work in progress | **69** | 47 | | |
| Finished goods | **406** | 370 | | |
| Consumable stores and spare parts | **43** | 39 | | |
| | **703** | 616 | | |
| Stock held at cost | **703** | 616 | | |
| Stock held at net realisable value | | | | |
| | **703** | 616 | | |

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# Notes to the Financial Statements

## 17 Fixed assets

| | Fletcher Building Group | | | | | | |
|---|---|---|---|---|---|---|---|
| | Land NZ$M | Buildings NZ$M | Plant & Machinery NZ$M | Fixtures & Equipment NZ$M | Resource Extraction NZ$M | Leased Assets NZ$M | Total NZ$M |
| Gross value at 1 July 2005 | 168 | 236 | 1,120 | 248 | 44 | 17 | 1,833 |
| Acquisitions and restatement during the year | (9) | (1) | 24 | (4) | 5 | | 15 |
| Additions | 1 | 9 | 164 | 42 | 10 | | 226 |
| Disposals | | (1) | (15) | (5) | (3) | (2) | (26) |
| Currency translation | 16 | 11 | 60 | 22 | 4 | | 113 |
| **Gross value at 30 June 2006** | 176 | 254 | 1,353 | 303 | 60 | 15 | 2,161 |
| Accumulated depreciation at 1 July 2005 | | (25) | (237) | (160) | (6) | (13) | (441) |
| Disposals | | | 10 | 4 | 2 | 2 | 18 |
| Depreciation expense | | (10) | (101) | (27) | (4) | (1) | (143) |
| Currency translation | (1) | (2) | (18) | (5) | | | (26) |
| **Accumulated depreciation at 30 June 2006** | (1) | (37) | (346) | (188) | (8) | (12) | (592) |
| **Net book value at 30 June 2006** | 175 | 217 | 1,007 | 115 | 52 | 3 | 1,569 |

# Notes to the Financial Statements

## 17 Fixed assets continued

| | Fletcher Building Group | | | | | | |
|---|---|---|---|---|---|---|---|
| | Land NZ$M | Buildings NZ$M | Plant & Machinery NZ$M | Fixtures & Equipment NZ$M | Resource Extraction NZ$M | Leased Assets NZ$M | Total NZ$M |
| Gross value at 1 July 2004 | 74 | 158 | 884 | 205 | 16 | 17 | 1,354 |
| Acquisitions | 92 | 55 | 124 | 20 | 27 | | 318 |
| Additions | 3 | 26 | 131 | 33 | 3 | | 196 |
| Disposals | (1) | (3) | (16) | (9) | (2) | | (31) |
| Currency translation | | | (3) | (1) | | | (4) |
| Gross value at 30 June 2005 | 168 | 236 | 1,120 | 248 | 44 | 17 | 1,833 |
| Accumulated depreciation at 1 July 2004 | | (18) | (155) | (141) | (5) | (12) | (331) |
| Disposals | | 1 | 8 | 5 | 2 | 1 | 17 |
| Depreciation expense | | (8) | (90) | (25) | (3) | (2) | (128) |
| Currency translation | | | | 1 | | | 1 |
| Accumulated depreciation at 30 June 2005 | | (25) | (237) | (160) | (6) | (13) | (441) |
| Net book value at 30 June 2005 | 168 | 211 | 883 | 88 | 38 | 4 | 1,392 |

As at 30 June 2006, fixed assets includes $119 million of assets under construction (June 2005 $82 million).

# Notes to the Financial Statements

## 18 Goodwill

| | Fletcher Building Group June 2006 NZ$M | Fletcher Building Group June 2005 NZ$M | Fletcher Building Limited June 2006 NZ$M | Fletcher Building Limited June 2005 NZ$M |
|---|---|---|---|---|
| Goodwill acquired at cost | **322** | 315 | | |
| Accumulated foreign currency translation movement taken to reserves | **25** | (6) | | |
| | **347** | 309 | | |
| Goodwill at the beginning of the year as originally reported | **309** | 176 | | |
| Adjustments to goodwill upon first time adoption of NZ IFRS | | 72 | | |
| Acquired during the year | **13** | 61 | | |
| Acquisition restatement during the year | **(6)** | | | |
| Foreign currency translation movement taken to reserves | **31** | | | |
| | **347** | 309 | | |
| The Laminex Group | **107** | 86 | | |
| Fletcher Insulation Australia | **92** | 85 | | |
| Tasman Insulation New Zealand | **43** | 43 | | |
| Stramit Corporation | **60** | 54 | | |
| Tasman Sinkware | **42** | 37 | | |
| Other subsidiaries | **3** | 4 | | |
| **Goodwill by major subsidiaries** | **347** | 309 | | |

**Impairment of goodwill**
Goodwill has been tested for impairment in June 2006. Each business unit which carries goodwill has prepared a discounted cashflow on a value-in-use basis, using their past experience and external sources of information where appropriate. These cashflow projections are based on the group's three year strategic plan rolled out for a further two years, plus a terminal year using a growth rate, on average, of two percent. The cashflow is discounted using the group's weighted average cost of capital of 10 percent after tax. This exercise confirmed that there are no impairment issues necessitating a write down of goodwill, as every business unit's value was in excess of its carrying value.

# Notes to the Financial Statements

| | Fletcher Building Group | | Fletcher Building Limited | |
|---|---|---|---|---|
| | June 2006 NZ$M | June 2005 NZ$M | June 2006 NZ$M | June 2005 NZ$M |
| **19 Intangibles** | | | | |
| Brands | **248** | 203 | | |
| Intangible assets | **2** | 2 | | |
| | **250** | 205 | | |
| **Brands** | | | | |
| Brands at the beginning of the year | **203** | 163 | | |
| Acquired during the year | | 41 | | |
| Acquisition restatement during the year | **21** | | | |
| Foreign currency translation movement taken to reserves | **24** | (1) | | |
| | **248** | 203 | | |
| The Laminex Group | **149** | 134 | | |
| Stramit Corporation | **40** | 36 | | |
| Other subsidiaries | **59** | 33 | | |
| **Brands by major subsidiaries** | **248** | 203 | | |

Brands are considered to have an indefinite useful life as there are no factors which indicate that there is a limit to the foreseeable cashflows. Factors considered before arriving at this conclusion are whether the business is a going concern, whether there is any evidence of obsolescence due to changes in either technology or regulatory conditions, whether the business is trading profitably and whether there are any other market based indications. Brands have been tested for impairment in June 2006 on a value in use basis. This exercise confirmed that there are no impairment issues necessitating a write-down.

# Notes to the Financial Statements

## 19 Intangibles continued

| | Fletcher Building Group | | Fletcher Building Limited | |
|---|---|---|---|---|
| | June 2006 NZ$M | June 2005 NZ$M | June 2006 NZ$M | June 2005 NZ$M |
| **Intangible assets** | | | | |
| Intangible assets acquired at cost | **15** | 14 | | |
| Accumulated amortisation | **(13)** | (12) | | |
| | **2** | 2 | | |
| Intangible assets at the beginning of the year | **2** | 3 | | |
| Arising during the year | **1** | | | |
| Charged to earnings | **(1)** | (1) | | |
| | **2** | 2 | | |

# Notes to the Financial Statements

## 20 Investments

| | Fletcher Building Group June 2006 NZ$M | Fletcher Building Group June 2005 NZ$M | Fletcher Building Limited June 2006 NZ$M | Fletcher Building Limited June 2005 NZ$M |
|---|---|---|---|---|
| Investment in associates | **113** | 103 | | |
| Investment in other companies | **2** | 3 | | |
| Retirement plan surplus – see note 34 | **14** | 13 | | |
| Investment in subsidiary companies [1] | | | 2,868 | 2,298 |
| | **129** | 119 | 2,868 | 2,298 |

[1] The principal subsidiaries included within investment in subsidiary companies are disclosed in note 33, principal operations.

| | Fletcher Building Group June 2006 NZ$M | Fletcher Building Group June 2005 NZ$M | Fletcher Building Limited June 2006 NZ$M | Fletcher Building Limited June 2005 NZ$M |
|---|---|---|---|---|
| **Carrying amount of associates:** | | | | |
| Carrying amount at the beginning of the year | **103** | 84 | | |
| Amortisation of goodwill in associates as originally reported | | (2) | | |
| Adjustments to associates upon first time adoption of NZ IFRS | | 6 | | |
| Acquisition of associates | **3** | 11 | | |
| Loans to associates | **(7)** | 5 | | |
| Equity accounted earnings of associates | **29** | 27 | | |
| Foreign currency translation movement taken to reserves | **13** | (1) | | |
| Dividends from associates | **(28)** | (27) | | |
| **Investment in associates** | **113** | 103 | | |
| Less loans to associates at the end of the year | **(14)** | (17) | | |
| **Investment in associates, excluding loans** | **99** | 86 | | |

# Notes to the Financial Statements

## 20 Investments continued

| | Fletcher Building Group June 2006 NZ$M | Fletcher Building Group June 2005 NZ$M | Fletcher Building Limited June 2006 NZ$M | Fletcher Building Limited June 2005 NZ$M |
|---|---|---|---|---|
| **Investment by associate:** | | | | |
| Wespine Industries Pty Limited | **51** | 45 | | |
| Dynea Industries WA Pty Limited | **18** | 15 | | |
| Mt Marrow Blue Metal Quarries Pty Limited | **8** | 5 | | |
| Mittagong Sands Pty Limited | **4** | 3 | | |
| Sims Pacific Metals Limited | **11** | 12 | | |
| Other | **21** | 23 | | |
| | **113** | 103 | | |
| **Balance sheet information for associates – 100%** | | | | |
| Assets | **246** | 212 | | |
| Liabilities | **153** | 135 | | |
| Equity | **93** | 77 | | |
| Equity – our share | **47** | 38 | | |
| Goodwill acquired at cost | **52** | 48 | | |
| **Investment in associates, excluding loans** | **99** | 86 | | |

# Notes to the Financial Statements

## 20 Investments continued

| | Fletcher Building Group | | Fletcher Building Limited | |
|---|---|---|---|---|
| | June 2006 NZ$M | June 2005 NZ$M | June 2006 NZ$M | June 2005 NZ$M |
| **Equity accounted earnings comprise:** | | | | |
| Revenue – 100% | **359** | 353 | | |
| Earnings before taxation – 100% | **68** | 64 | | |
| Earnings before taxation – our share | **34** | 32 | | |
| Taxation expense | **(5)** | (5) | | |
| **Earnings after taxation – our share** | **29** | 27 | | |

# Notes to the Financial Statements

## 21 Provisions

| | Restructuring NZ$M | Construction Claims NZ$M | Property NZ$M | Warranty & Environmental NZ$M | Other NZ$M | Total June 2006 NZ$M | Total June 2005 NZ$M |
|---|---|---|---|---|---|---|---|
| **Fletcher Building Group** | | | | | | | |
| Carrying amount at the beginning of the year | 8 | 6 | 10 | 10 | 30 | 64 | 59 |
| Currency translation | 1 | | | | 3 | 4 | |
| Acquired during the year | 3 | 2 | | | | 5 | 9 |
| Charged to earnings | 3 | | | 1 | 6 | 10 | 8 |
| Settled or utilised | (3) | (1) | | | (1) | (5) | (8) |
| Released to earnings | (1) | (1) | (3) | (1) | (1) | (7) | (4) |
| | 11 | 6 | 7 | 10 | 37 | 71 | 64 |
| **Fletcher Building Limited** | | | | | | | |
| Carrying amount at the beginning of the year | | | | | | 2 | 2 |
| | | | | | | 2 | 2 |

Restructuring provisions predominantly relate to obligations acquired as part of the Amatek acquisition and are expected to be utilised over the next two years. Construction claims relate to disputes on jobs and provisions in regard to the wind down of overseas operations and are expected to be utilised over the next four years. Property provisions relate to onerous lease obligations and are expected to be utilised over four years. Warranty and environmental provisions relate to products sold and services provided and is expected to be utilised over the next three years. Other provisions relate to miscellaneous provisions across the group with no individual provision being significant.

# Notes to the Financial Statements

## 21 Provisions continued

| | Fletcher Building Group | | Fletcher Building Limited | |
|---|---|---|---|---|
| | June 2006 NZ$M | June 2005 NZ$M | June 2006 NZ$M | June 2005 NZ$M |
| Current portion | **59** | 54 | 2 | 2 |
| Non-current portion | **12** | 10 | | |
| | **71** | 64 | 2 | 2 |

## 22 Creditors and accruals

| | Fletcher Building Group | | Fletcher Building Limited | |
|---|---|---|---|---|
| | June 2006 NZ$M | June 2005 NZ$M | June 2006 NZ$M | June 2005 NZ$M |
| Trade creditors | **548** | 560 | | |
| Contract retentions | **26** | 22 | | |
| Accrued interest | **15** | 12 | 5 | 7 |
| Other liabilities | **182** | 72 | 66 | 4 |
| Employee entitlements | **157** | 144 | | |
| Workers compensation schemes | **11** | 9 | | |
| | **939** | 819 | 71 | 11 |
| Current portion | **876** | 761 | 71 | 11 |
| Non-current portion | **63** | 58 | | |
| Carrying amount at the end of the year | **939** | 819 | 71 | 11 |

The non-current portion of creditors and accruals relates to long-service leave obligations of the group within employee entitlements.

# Notes to the Financial Statements

## 23 Contracts

| | Fletcher Building Group | | Fletcher Building Limited | |
|---|---|---|---|---|
| | June 2006 NZ$M | June 2005 NZ$M | June 2006 NZ$M | June 2005 NZ$M |
| Gross construction work in progress plus margin to date | **1,255** | 692 | | |
| Progress billings | **(1,358)** | (785) | | |
| **Work in progress/(money received in advance)** | **(103)** | (93) | | |
| Construction contracts with net work in progress | **8** | | | |
| Construction contracts with net money received in advance of cost and margin | **(111)** | (93) | | |
| **Work in progress/(money received in advance)** | **(103)** | (93) | | |

Included in sales is $772 million of contract revenue (June 2005 $623 million).

# Notes to the Financial Statements

## 24 Taxation

| | Fletcher Building Group June 2006 NZ$M | Fletcher Building Group June 2005 NZ$M | Fletcher Building Limited June 2006 NZ$M | Fletcher Building Limited June 2005 NZ$M |
|---|---|---|---|---|
| Deferred taxation asset | **105** | 148 | | 1 |
| Deferred taxation liability | **(76)** | (62) | (1) | |
| Net deferred taxation asset/(liability) | **29** | 86 | (1) | 1 |
| Current taxation asset/(liability) | **34** | (1) | 19 | 12 |
| Net taxation asset/(liability) | **63** | 85 | 18 | 13 |
| **Provision for current taxation:** | | | | |
| Opening provision for current taxation | **(1)** | (6) | 12 | 9 |
| Currency translation | **3** | | | |
| Taxation in the earnings statement | **(191)** | (171) | 19 | 12 |
| Transfer from deferred taxation | **45** | 26 | | |
| Intercompany payment | | | (12) | (9) |
| Minority share of taxation expense | **9** | 11 | | |
| Taxation in reserves | **59** | (1) | | |
| Net taxation payments | **110** | 140 | | |
| | **34** | (1) | 19 | 12 |

# Notes to the Financial Statements

## 24 Taxation continued

**Provision for deferred taxation:**

**June 2006** — **Fletcher Building Group**

| | Provisions NZ$M | Debtors NZ$M | Fixed Assets NZ$M | Brands NZ$M | Tax Losses NZ$M | Other NZ$M | Total NZ$M |
|---|---|---|---|---|---|---|---|
| Opening provision for deferred taxation | **73** | **6** | **14** | **(62)** | **55** | | **86** |
| Currency translation | **4** | | | **(7)** | **3** | **(1)** | **(1)** |
| Adjustments to deferred taxation upon first time adoption of NZ IFRS | | | | | | **(1)** | **(1)** |
| Taxation in the earnings statement | **2** | | | | | | **2** |
| Transfer to current taxation | **(2)** | | **(5)** | | **(35)** | **(3)** | **(45)** |
| Acquisitions and restatement during the year | **2** | | **(13)** | **(7)** | **8** | **(1)** | **(11)** |
| Taxation in reserves | | | | | | **(1)** | **(1)** |
| | **79** | **6** | **(4)** | **(76)** | **31** | **(7)** | **29** |

**June 2005**

| | Provisions NZ$M | Debtors NZ$M | Fixed Assets NZ$M | Brands NZ$M | Tax Losses NZ$M | Other NZ$M | Total NZ$M |
|---|---|---|---|---|---|---|---|
| Opening provision for deferred taxation | 44 | 6 | 37 | | | 5 | 92 |
| Adjustments to deferred taxation upon first time adoption of NZ IFRS | 5 | | (7) | (62) | | (4) | (68) |
| Taxation in the earnings statement | 14 | (2) | (7) | | | | 5 |
| Transfer to current taxation | (5) | | (9) | | (12) | | (26) |
| Acquisition during the year | 15 | 2 | | | 67 | (1) | 83 |
| | 73 | 6 | 14 | (62) | 55 | | 86 |

# Notes to the Financial Statements

## 24 Taxation continued

| | Provisions NZ$M | Debtors NZ$M | Fixed Assets NZ$M | Brands NZ$M | Tax Losses NZ$M | Other NZ$M | Total NZ$M |
|---|---|---|---|---|---|---|---|
| **Provision for deferred taxation:** | | | | | | | |
| **June 2006** | | | | **Fletcher Building Limited** | | | |
| Opening provision for deferred taxation | 1 | | | | | | 1 |
| Taxation in reserves | | | | | | (2) | (2) |
| | 1 | | | | | (2) | (1) |
| **June 2005** | | | | | | | |
| Opening provision for deferred taxation | 1 | | | | | | 1 |
| | 1 | | | | | | 1 |

As the $70 million tax benefit arising from the branch equivalent tax account election in note 7 is subject to audit by the Inland Revenue Department, it has not been recognised. Recognition of the tax losses available of $31 million is dependent upon the requirements of income tax legislation being met and these are expected to be utilised within the next year. There are no significant deferred tax liabilities in respect of the undistributed profits of subsidiaries and associates.

# Notes to the Financial Statements

## 25 Capital notes

| | | | Fletcher Building Group | | Fletcher Building Limited | |
|---|---|---|---|---|---|---|
| | | | June 2006 NZ$M | June 2005 NZ$M | June 2006 NZ$M | June 2005 NZ$M |
| **Capital notes** | **Coupon** | **Election date** | | | | |
| Series 2006 | 8.75% | 15 March 2006 | | 33 | | 33 |
| Series 2006 | 7.90% | 31 October 2006 | **35** | 35 | 35 | 35 |
| Series 2006 | 7.30% | 31 October 2006 | **25** | 25 | 25 | 25 |
| Series 2006 | 8.30% | 31 October 2006 | **28** | 28 | 28 | 28 |
| Series 2008 | 8.60% | 15 March 2008 | **113** | 113 | | |
| Series 2009 | 7.80% | 15 March 2009 | **93** | 61 | 93 | 61 |
| Series 2010 | 8.85% | 15 March 2010 | **37** | 37 | | |
| Series 2011 | 7.55% | 15 March 2011 | **69** | 18 | 69 | 18 |
| Prepaid expenses | | | **(1)** | (3) | | |
| | | | **399** | 347 | 250 | 200 |
| Capital notes due for election within 12 months | | | **88** | 33 | 88 | 33 |
| Capital notes due for election after 12 months | | | **312** | 317 | 162 | 167 |
| Prepaid expenses | | | **(1)** | (3) | | |
| | | | **399** | 347 | 250 | 200 |

# Notes to the Financial Statements

## 25 Capital notes continued

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 is 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, at approximately 98 percent of the current market price. Instead of issuing shares to holders who choose to convert, Fletcher Building may, at its option, purchase or redeem the capital notes for cash at the principal amount plus any accrued but unpaid interest.

Under the terms of the capital notes, non-payment of interest is not an act of default although unpaid interest is accrued and is interest bearing at the same rate as the principal of the capital notes. Fletcher Building Limited has covenanted not to pay dividends to its shareholders, while interest that is due and payable on capital notes has not been paid.

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 held at 30 June 2006 were to be converted to shares, 45 million shares (June 2005 52 million 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

## 26 Term debt

**Loans subject to the negative pledge**

The 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 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.

**Loans not subject to the negative pledge**

Loans not having the benefit of the negative pledge are secured against the subsidiaries' own statement of financial position or against specific assets.

**Unused committed lines of credit**

At 30 June 2006, the group had $1,267 million of committed bank facilities of which $577 million was undrawn (June 2005 $1,242 million; $403 million).

| | Fletcher Building Group | | Fletcher Building Limited | |
|---|---|---|---|---|
| | June 2006 NZ$M | June 2005 NZ$M | June 2006 NZ$M | June 2005 NZ$M |
| Floating loans | **317** | 475 | (301) | 196 |
| Fixed loans | **311** | 323 | 311 | 323 |
| Loans not subject to the negative pledge – floating | **59** | 37 | | |
| Loans not subject to the negative pledge – fixed | **3** | 4 | | |
| | **690** | 839 | 10 | 519 |

# Notes to the Financial Statements

## 26 Term debt continued

**Summary of repayment terms and interest rates by repayment period**

| | Fletcher Building Group | | | |
|---|---|---|---|---|
| | June 2006 NZ$M | June 2006 Int. Rate % | June 2005 NZ$M | June 2005 Int. Rate % |
| Due for repayment: | | | | |
| within one year | **60** | **8.0** | 292 | 6.6 |
| within two years | **1** | **8.5** | 1 | 8.4 |
| within three years | **275** | **5.9** | 301 | 5.7 |
| within four years | | | 71 | 6.8 |
| within five years | **49** | **5.9** | 174 | 6.4 |
| after five years | **305** | **6.9** | | |
| | **690** | **6.5** | 839 | 6.3 |

The amount due for repayment within one year relates to the PlaceMakers joint ventures and certain trade bill facilities which are reviewed annually.

# Notes to the Financial Statements

## 26 Term debt continued

**Summary of repayment terms and interest rates by repayment period**

| | Fletcher Building Limited | | | |
|---|---|---|---|---|
| | June 2006 NZ$M | June 2006 Int. Rate % | June 2005 NZ$M | June 2005 Int. Rate % |
| Due for repayment: | | | | |
| within one year | | | 254 | 6.1 |
| within two years | | | | |
| within three years | 10 | 8.0 | 65 | 6.2 |
| within four years | | | 70 | 6.3 |
| within five years | | | 130 | 6.3 |
| | 10 | 8.0 | 519 | 6.2 |

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

# Notes to the Financial Statements

## 27 Financial instruments

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

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

**Currency balance sheet risk**
It is group policy to hedge the foreign exchange exposure to balance sheet currency risk by borrowing in the currency of the asset in proportion to the group's debt to equity ratio. Where the underlying debt in any currency does not equate to the required proportion of total debt, currency swaps are entered into for up to one year. In addition, the group has entered into currency forwards and swaps to hedge the taxation exposure arising from the translation of the group's Australian operations for up to three years. The gains and losses on these transactions are taken to the currency translation reserve as cashflow hedges.

**Currency trade risk**
It is group policy that no currency exchange risk may be entered into or allowed to remain outstanding should it arise on committed trade transactions. In addition the group hedges some forecast transactions for up to two years. When exposures are incurred by operations in currencies other than their local currency, currency forwards, swaps and options are entered into to eliminate the exposure. The majority of these transactions have maturities of less than one year. Hedge accounting is not applied for on committed trade transactions and the gain and loss on these transactions are taken to the earnings statement. However hedge accounting is applied on the forecast transactions and the gains and losses on these are carried forward in the cashflow hedge reserve as cashflow hedges. The main currencies hedged are the Australian dollar, the United States dollar, the Japanese yen, the Euro and the British pound.

**Interest rate risk**
It is group policy to manage the fixed interest rate component of its debt and capital notes obligations within the range of 40 to 70 percent. The position in this range is managed depending upon underlying interest rate exposures and economic conditions. Interest rate swaps, forward rate agreements and options are entered into to manage this position. Currently interest rate swaps have been entered into in Australian dollars and New Zealand dollars which mature over the next ten years matching the maturity of the related loans. All the group's interest rate swaps are cashflow hedges and the gains and losses on these transactions are taken to the cashflow hedge reserve.

# Notes to the Financial Statements

## 27 Financial instruments continued

### Commodity price risk

It is group policy to use commodity price swaps and options to manage the market price risk of certain commodities. The group manages its commodity price risk depending on the underlying exposures, economic conditions and access to active derivatives markets. Currently the group hedges zinc for up to one year and over 80 percent of the New Zealand business unit's electricity requirements for up to five years. Hedge accounting is applied on these forecast transactions and the gains and losses are carried forward in the cashflow hedge reserve.

### Credit risk

To the extent the group has a receivable from another party there is a credit risk in the event of non-performance by that counterparty. At balance date there were no significant concentrations of credit risks in respect of trade receivables. The group enters into financial instruments with various counterparties in accordance with established limits as to credit rating and dollar value and does not require collateral or other security to support the financial instruments. In accordance with the established counterparty restrictions, there are no significant concentrations of credit risk in respect of the financial instruments.

### Liquidity risk

Liquidity risk is the risk that the group will encounter difficulty in making its financial commitments as they fall due. The group manages its liquidity risk by maintaining a target level of undrawn committed facilities and a spread of the maturity dates of the group's debt facilities.

### Outstanding derivative transactions

Financial instruments are used as a means of reducing exposure to fluctuations in foreign exchange rates, interest rates and commodity prices. 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 outstanding derivative transactions for the group are as follows:

# Notes to the Financial Statements

## 27 Financial instruments continued

| | Fletcher Building Group June 2006 NZ$M | Fletcher Building Group June 2005 NZ$M | Fletcher Building Limited June 2006 NZ$M | Fletcher Building Limited June 2005 NZ$M |
|---|---|---|---|---|
| Principal or contract amount: | | | | |
| Foreign exchange | | | | |
| Currency forward exchange contracts | | | | |
| To pay – liability | **(2,074)** | (1,077) | (1,232) | (600) |
| To receive – asset | **2,018** | 1,072 | 1,180 | 601 |
| Liability recognised in other liabilities within creditors | **(56)** | (5) | (52) | 1 |
| Currency options purchased – asset | **1** | | | |
| Currency options purchased – (liability) | **(1)** | | | |
| Interest rate swaps – asset/(liability) | **581** | 323 | 581 | 323 |
| Electricity price swaps – asset/(liability) | **141** | 132 | 141 | 132 |
| Base metal price swaps – asset/(liability) | | | | |

The cash settlement amounts of these instruments, if they had settled on 30 June 2006, approximates the principal or contract amounts, except for interest rate swaps, currency options and commodity price swaps for which the cash settlement is limited to the fair value.

# Notes to the Financial Statements

## 27 Financial instruments continued

### Interest rate repricing

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

| | Fletcher Building Group | | | |
|---|---|---|---|---|
| | June 2006 NZ$M | June 2006 % | June 2005 NZ$M | June 2005 % |
| **Total portfolio** | | | | |
| Interest rate repriced and average interest rate: | | | | |
| within one year | **437** | **7.4** | 572 | 6.7 |
| within two years | **70** | **9.1** | 133 | 7.0 |
| within three years | **180** | **7.1** | 179 | 7.5 |
| within four years | **8** | **7.3** | 148 | 6.9 |
| within five years | **68** | **7.8** | 92 | 7.2 |
| after five years | **299** | **6.3** | 19 | 7.6 |
| | **1,062** | **7.3** | 1,143 | 7.0 |

# Notes to the Financial Statements

## 27 Financial instruments continued

| | Fletcher Building Limited | | | |
|---|---|---|---|---|
| | June 2006 NZ$M | June 2006 % | June 2005 NZ$M | June 2005 % |
| Interest rate repriced and average interest rate: | | | | |
| within one year | (193) | 7.4 | 291 | 6.7 |
| within two years | (43) | 7.8 | 132 | 7.0 |
| within three years | 179 | 7.1 | 65 | 5.7 |
| within four years | (30) | 6.3 | 148 | 6.9 |
| within five years | 68 | 7.8 | 55 | 6.1 |
| after five years | 299 | 6.3 | 19 | 7.6 |
| | 280 | 6.2 | 710 | 6.7 |

# Notes to the Financial Statements

## 27 Financial instruments continued

| | Fletcher Building Group – June 2006 | | | | | |
|---|---|---|---|---|---|---|
| | Interest Rate % | Floating NZ$M | Fixed up to One Year NZ$M | Fixed One to Five Years NZ$M | Fixed over Five Years NZ$M | Total NZ$M |
| **Asset class** | | | | | | |
| Bank loans – New Zealand dollars | 8.0 | 10 | | | | 10 |
| Bank loans – Australian dollars | 6.5 | 312 | | | | 312 |
| US private placement – New Zealand dollars | 8.3 | 144 | | | | 144 |
| US private placement – Australian dollars | 6.9 | 161 | | | | 161 |
| Interest rate swaps – New Zealand dollars | (0.2) | (30) | | (110) | 140 | |
| Interest rate swaps – Australian dollars | (0.4) | (281) | | 122 | 159 | |
| Cross currency interest rate swaps – New Zealand dollars | (7.5) | (205) | | | | (205) |
| Cross currency interest rate swaps – Australian dollars | 6.0 | 206 | | | | 206 |
| Other loans – New Zealand dollars | 8.6 | 47 | | 3 | | 50 |
| Other loans – Australian dollars | 9.0 | 12 | | | | 12 |
| Term debt | 6.5 | 376 | | 15 | 299 | 690 |
| Cash and liquid deposits | 4.0 | (49) | | | | (49) |
| Short-term loans | 7.4 | 21 | | | | 21 |
| Capital notes | 8.2 | | 88 | 312 | | 400 |
| | 7.3 | 348 | 88 | 327 | 299 | 1,062 |

# Notes to the Financial Statements

## 27 Financial instruments continued

| | Fletcher Building Group – June 2005 | | | | | |
|---|---|---|---|---|---|---|
| | Interest Rate % | Floating NZ$M | Fixed up to One Year NZ$M | Fixed One to Five Years NZ$M | Fixed over Five Years NZ$M | Total NZ$M |
| Bank loans – New Zealand dollars | 7.4 | 515 | | | | 515 |
| Bank loans – Australian dollars | 6.1 | 279 | | | | 279 |
| Interest rate swaps – New Zealand dollars | (0.9) | (50) | 51 | | | 1 |
| Interest rate swaps – Australian dollars | (0.2) | (272) | 22 | 250 | | |
| Cross currency interest rate swaps – New Zealand dollars | (7.4) | (370) | | | | (370) |
| Cross currency interest rate swaps – Australian dollars | 6.0 | 373 | | | | 373 |
| Other loans – New Zealand dollars | 8.1 | 37 | | 4 | | 41 |
| Term debt | 6.3 | 512 | 73 | 254 | | 839 |
| Cash and liquid deposits | (4.1) | (52) | | | | (52) |
| Short-term loans | 7.5 | 6 | | | | 6 |
| Capital notes | 8.3 | | 33 | 299 | 18 | 350 |
| | 7.0 | 466 | 106 | 553 | 18 | 1,143 |

# Notes to the Financial Statements

## 27 Financial instruments continued

### Fletcher Building Limited – June 2006

| | Interest Rate % | Floating NZ$M | Fixed up to One Year NZ$M | Fixed One to Five Years NZ$M | Fixed over Five Years NZ$M | Total NZ$M |
|---|---|---|---|---|---|---|
| **Asset class** | | | | | | |
| Bank loans – New Zealand dollars | 8.0 | 10 | | | | 10 |
| Interest rate swaps – New Zealand dollars | (0.2) | (30) | | (110) | 140 | |
| Interest rate swaps – Australian dollars | (0.4) | (281) | | 122 | 159 | |
| Cross currency interest rate swaps – New Zealand dollars | (7.5) | (206) | | | | (206) |
| Cross currency interest rate swaps – Australian dollars | 6.0 | 206 | | | | 206 |
| Term debt | 8.0 | (301) | | 12 | 299 | 10 |
| Cash and liquid deposits | (4.1) | (1) | | | | (1) |
| Short-term loans | 7.4 | 21 | | | | 21 |
| Capital notes | 7.8 | | 88 | 162 | | 250 |
| | 6.2 | (281) | 88 | 174 | 299 | 280 |

# Notes to the Financial Statements

## 27 Financial instruments continued

**Fletcher Building Limited – June 2005**

| | Interest Rate % | Floating NZ$M | Fixed up to One Year NZ$M | Fixed One to Five years NZ$M | Fixed over Five Years NZ$M | Total NZ$M |
|---|---|---|---|---|---|---|
| Bank loans – New Zealand dollars | 7.4 | 516 | | | | 516 |
| Interest rate swaps – New Zealand dollars | (0.9) | (50) | 50 | | | |
| Interest rate swaps – Australian dollars | (0.2) | (273) | 22 | 251 | | |
| Cross currency interest rate swaps – New Zealand dollars | (0.7) | (370) | | | | (370) |
| Cross currency interest rate swaps – Australian dollars | 6.0 | 373 | | | | 373 |
| Term debt | 6.2 | 196 | 72 | 251 | | 519 |
| Cash and liquid deposits | (6.8) | (12) | | | | (12) |
| Short-term loans | 6.8 | 3 | | | | 3 |
| Capital notes | 8.0 | | 33 | 149 | 18 | 200 |
| | 6.7 | 187 | 105 | 400 | 18 | 710 |

# Notes to the Financial Statements

## 27 Financial instruments continued

**Fair values**

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

| | Fletcher Building Group | | | |
|---|---|---|---|---|
| | Carrying Value June 2006 NZ$M | Fair Value June 2006 NZ$M | Carrying Value June 2005 NZ$M | Fair Value June 2005 NZ$M |
| Debtors | **913** | **913** | 817 | 817 |
| Investments – other | **16** | **16** | 16 | 16 |
| Creditors | **(939)** | **(939)** | (819) | (819) |
| Cash and liquid deposits | **49** | **49** | 52 | 52 |
| Short-term loans | **(21)** | **(21)** | (6) | (6) |
| Capital notes | **(400)** | **(401)** | (350) | (353) |
| Bank loans | **(323)** | **(323)** | (795) | (795) |
| US private placement | **(305)** | **(305)** | | |
| Interest rate swaps | **9** | **9** | | (1) |
| Currency swaps | **(1)** | **(1)** | (3) | (3) |
| Other loans | **(61)** | **(61)** | (41) | (41) |
| Currency forward exchange contracts | **(54)** | **(54)** | | (1) |
| Currency options | | | | |
| Electricity price swaps | **(7)** | **(7)** | | 3 |
| Base metal price swaps | | | | |

# Notes to the Financial Statements

## 27 Financial instruments continued

**Fair values**

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

| | Fletcher Building Limited | | | |
|---|---|---|---|---|
| | Carrying Value June 2006 NZ$M | Fair Value June 2006 NZ$M | Carrying Value June 2005 NZ$M | Fair Value June 2005 NZ$M |
| Debtors | 22 | 22 | 12 | 12 |
| Creditors | (71) | (71) | (11) | (11) |
| Cash and liquid deposits | 1 | 1 | 12 | 12 |
| Short-term loans | (21) | (21) | (3) | (3) |
| Capital notes | (250) | (249) | (200) | (200) |
| Bank loans | (10) | (10) | (516) | (516) |
| Interest rate swaps | 9 | 9 | | (1) |
| Currency swaps | | | (3) | (3) |
| Other loans | | | | |
| Currency forward exchange contracts | (60) | (60) | | |
| Currency options | | | | |
| Electricity price swaps | (7) | (7) | | 3 |
| Base metal price swaps | | | | |

In the fair value tables interest accruals are included within other liabilities within creditors. 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 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. For foreign currency derivatives and commodity derivatives the appropriate quotes or derived forward curve is used at balance date.

# Notes to the Financial Statements

## 28 Capital expenditure commitments

| | Fletcher Building Group June 2006 NZ$M | Fletcher Building Group June 2005 NZ$M |
|---|---|---|
| Approved by the directors but uncommitted at year end | **30** | 26 |
| Committed at year end | **89** | 68 |
| | **119** | 94 |

## 29 Lease commitments

The expected future minimum rental payments required under operating leases that have initial or remaining non-cancellable lease terms in excess of one year are at year end:

| | June 2006 NZ$M | June 2005 NZ$M |
|---|---|---|
| within one year | **86** | 74 |
| within two years | **71** | 61 |
| within three years | **52** | 53 |
| within four years | **38** | 43 |
| within five years | **33** | 27 |
| after five years | **78** | 92 |
| | **358** | 350 |

Operating lease commitments relate mainly to occupancy leases of buildings.

# Notes to the Financial Statements

| | Fletcher Building Group | |
|---|---|---|
| | June 2006 NZ$M | June 2005 NZ$M |

## 30 Contingent liabilities

Provision has been made in the ordinary course of business for all known and probable future claims but not for such claims as are considered remote. Contingent liabilities arise in respect of the following categories:

| | June 2006 NZ$M | June 2005 NZ$M |
|---|---|---|
| Contingent liabilities with respect to guarantees extended on trading transactions, performance bonds and other transactions | **199** | 177 |
| Letters of credit | **5** | 8 |

## 31 Self insurance

The company monitors its capacity to retain otherwise insurable loss. The directors believe that the group's risk management programmes are adequate to protect its assets and earnings against losses incurred within the self insurance level of $10 million inherent in its insurance policies. Based on past experience, the company does not anticipate that future losses within these levels would have a significant impact on the group's financial position or performance. In certain circumstances, where required by law or where management considers it appropriate, insurance may be arranged for exposures within the self insurance levels. In general terms, subject to the self insurance levels, the group wide insurance policies are with insurers having a Standard & Poor's A grade rating or better.

The following risks are insured at 30 June 2006 in respect of each event up to a maximum of:

| | June 2006 NZ$M | June 2005 NZ$M |
|---|---|---|
| Public and product liability | **100** | 100 |
| Loss or damage to group property including business interruption | **300** | 280 |
| Marine public liability | **50** | 50 |
| Public liability resulting from construction activities | **50** | 50 |
| Contract works – separate cover is arranged for each contract and the insured value will generally exceed the contract value | **30** | 30 |

The group has made provision for reported and estimated unreported losses incurred at balance date.

# Notes to the Financial Statements

## 32 Related party transactions

| | Fletcher Building Group June 2006 NZ$M | Fletcher Building Group June 2005 NZ$M | Fletcher Building Limited June 2006 NZ$M | Fletcher Building Limited June 2005 NZ$M |
|---|---|---|---|---|
| **Fletcher Building Group** | | | | |
| Trading activities with related parties: | | | | |
| Purchase of scrap metal from Sims Pacific Metals Limited | **81** | 89 | | |
| Amounts owing relating to the purchase of scrap metal from Sims Pacific Metals Limited, and is included within creditors | **5** | 5 | | |
| Purchase of raw materials from Wespine Industries Pty Limited and Dyno Industries WA Pty Limited | **62** | 54 | | |
| Amounts owing relating to the purchase of raw materials from Wespine Industries Pty Limited and Dyno Industries WA Pty Limited, and is included within creditors | **1** | 4 | | |
| **Key management personnel compensation** | | | | |
| Directors' fees | **1** | 1 | | |
| Executive committee remuneration paid, payable or provided for: | | | | |
| Short-term employee benefits | **8** | 7 | | |
| Post employment benefits | | | | |
| Other long-term benefits | | | | |
| Termination benefits | | | | |
| Share-based payments | **1** | | | |

# Notes to the Financial Statements

## 32 Related party transactions continued

| | Fletcher Building Group June 2006 NZ$M | Fletcher Building Group June 2005 NZ$M | Fletcher Building Limited June 2006 NZ$M | Fletcher Building Limited June 2005 NZ$M |
|---|---|---|---|---|
| **Fletcher Building Limited** | | | | |
| Interest income received from subsidiary companies | | | 41 | 19 |
| Dividend received from subsidiary companies | | | 216 | 166 |
| Foreign exchange gain | | | | 2 |
| Reimbursement of foreign exchange loss from Fletcher Building Holdings Limited | | | 28 | |
| Term receivable owing from subsidiary companies [1] | | | 424 | 383 |
| Liability owing to subsidiary companies [2] | | | 915 | 356 |
| Liability owing to subsidiary companies [3] | | | 77 | 170 |
| Liability owing to subsidiary companies [4] | | | 1,074 | 574 |

[1] This unsecured advance represents long term funding even though it is for no fixed term and bears interest at 10.2 percent.

[2] These unsecured advances represents long term funding even though they are for no fixed term and bear interest at 7.5 percent.

[3] These unsecured advances represents long term funding even though they are for no fixed term and bear interest at 9.75 percent.

[4] This unsecured advance represents long term funding even though it is for no fixed term and is non interest bearing.

Fletcher Building Limited is the holding company of the Fletcher Building group. Fletcher Building Limited has a relationship with each of its subsidiaries, associates and joint ventures. A full list of all the 200 subsidiaries of the group is included in the Regulatory Disclosures section of the annual report.

Where the company enters into financial guarantee contracts to guarantee the performance or indebtedness 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.

**Fletcher Building Retirement Plan**

As at 30 June 2006, Fletcher Building Nominees Limited (the trustee of the New Zealand retirement plan) held $13,430,132 of shares and $13,500,000 of capital notes in Fletcher Building Limited (June 2005 $11,216,975 shares; $10,000,000 capital notes) in respect of economic interests that members of the retirement plan have in Fletcher Building shares and capital notes.

# Notes to the Financial Statements

## 33 Principal operations

Fletcher Building Limited is the holding company of the Fletcher Building group. The principal subsidiaries and associates, as at 30 June 2006, are outlined below:

| | Country of Domicile | % Holding | Principal Activity |
|---|---|---|---|
| **Principal subsidiaries** | | | |
| Fletcher Building Holdings Limited | NZ | 100 | Holding company |
| Fletcher Building Products Limited | NZ | 100 | Building products |
| Fletcher Concrete and Infrastructure Limited | NZ | 100 | Concrete products |
| Fletcher Distribution Limited | NZ | 100 | Merchandising |
| Fletcher Steel Limited | NZ | 100 | Steel production |
| Fletcher Residential Limited | NZ | 100 | Housing |
| The Fletcher Construction Company Limited | NZ | 100 | Construction |
| Winstone Wallboards Limited | NZ | 100 | Gypsum plasterboard |
| Fletcher Property Limited | NZ | 100 | Property management |
| PlaceMakers subsidiaries | NZ | 50.1 | Retail |
| Fletcher Building Finance Limited | NZ | 100 | Finance |
| Tasman Insulation New Zealand Limited | NZ | 100 | Insulation |
| AHI Roofing Limited | NZ | 100 | Roofing |
| Firth Industries Peru S.A. | Peru | 100 | Concrete products |
| Cemac (Hong Kong) Limited | Hong Kong | 100 | Wall partitions & ceiling systems |
| Fletcher Construction Company (Fiji) Limited | Fiji | 100 | Construction |
| Fletcher Challenge Concrete Industries (Fiji) Limited | Fiji | 100 | Quarrying |
| Metromix Concrete Company Limited | Fiji | 100 | Concrete products |
| Laminex Group Limited | Australia | 100 | Building products |
| Fletcher Building (Australia) Pty Limited | Australia | 100 | Holding company |

# Notes to the Financial Statements

## 33 Principal operations continued

| | Country of Domicile | % Holding | Principal Activity |
|---|---|---|---|
| Tasman Insulation Pty Limited | Australia | 100 | Insulation |
| Tasman Sinkware Pty Limited | Australia | 100 | Sinks |
| Tasman Access Floors Pty Limited | Australia | 100 | Flooring |
| Rocla Pty Limited | Australia | 100 | Concrete products |
| Stramit Corporation Pty Limited | Australia | 100 | Steel production |
| Insulation Solutions Pty Limited | Australia | 100 | Insulation |
| Fletcher Construction (Solomon Islands) Limited | Solomon Is. | 100 | Construction |
| Fletcher Morobe Construction Pty Limited | PNG | 100 | Construction |
| Fletcher Building Netherlands B.V. | Netherlands | 100 | Finance |
| Tasman Investments (Netherlands Antilles) N.V. | Neth Antilles | 100 | Finance |
| Decra Roofing Systems Inc. | United States | 100 | Roofing |
| **Associates** | | | |
| Wespine Industries Pty Limited | Australia | 50 | Saw miller |
| Dynea Industries WA Pty Limited | Australia | 50 | Building products |
| Mt Marrow Blue Metal Quarries Pty Limited | Australia | 50 | Quarrying |
| Mittagong Sands Pty Limited | Australia | 50 | Quarrying |
| Sims Pacific Metals Limited | NZ | 50 | Metal recycling |

# Notes to the Financial Statements

## 34 Retirement plans

Fletcher Building Limited is the principal sponsoring company of a plan that provides retirement and other benefits to employees of the Fletcher Building group in New Zealand. Participation in this plan has been closed for a number of years, although defined contribution savings plans have been made available. Various defined benefit plans and defined contribution plans exist in Australia as a result of the acquisition of the Amatek, Tasman Building Products, and the Laminex groups which those companies contribute to on behalf of their employees. All of these plans' obligations are wholly funded.

These defined benefit obligations are based on years of service and the employees' compensation during their years of employment. Contributions are intended to provide not only for benefits attributed to service to date but also for those expected to be earned in the future. These obligations are accounted for in accordance with NZ IAS 19 Employee Benefits, which has the effect of smoothing the volatility in the returns earned by the plans through amortising gains and losses over the life of the plans. At 30 June 2006, $10 million of net gains (June 2005 $12 million of net losses) will be amortised in future years.

Fletcher Building Limited has an obligation to ensure that the funding ratio of the New Zealand plan's assets is at least 115% of the plan's pension obligation. This is based upon any two consecutive annual actuarial valuations as calculated by the plan's actuary. This calculation is done on the plan's funding basis which differs from the calculation under NZ IAS 19. At 31 March 2006 the value of the assets was 120% of the actuarial liability and the funded surplus was $49 million (31 March 2005 115.2%, $35 million). In compliance with NZ IAS 19 the group recalculates the pension obligation using the after tax return on government stock, which at 30 June 2006 was 4.03%. This is different from the pension plan's own accounts which uses the expected after tax return on the plan's assets of 5.5%. By using a lower discount rate this results in a higher obligation, therefore the funded surplus of the New Zealand's plan calculated under NZ IAS 19 is only $11 million.

# Notes to the Financial Statements

## 34 Retirement plans continued

| | June 2006 NZ$M | June 2005 NZ$M |
|---|---|---|
| **Net periodic pension cost** | | |
| Service cost earned during the year | **(22)** | (11) |
| Interest cost on projected benefit obligation | **(34)** | (15) |
| Actual return on assets | **71** | 30 |
| Net amortisation of: | | |
| Amortisation of net (gain)/loss | **(1)** | (1) |
| Experience adjustments on plans assets – the difference between the expected and actual return | **(30)** | (9) |
| **Net periodic pension (cost)/benefit recognised in operating earnings** | **(16)** | (6) |
| **Closing net asset of the plans** | | |
| Assets of the plans at fair value | **533** | 461 |
| Total projected benefit obligation | **(509)** | (460) |
| Funded surplus/(obligation) | **24** | 1 |
| Projected unrecognised funded (surplus)/obligation consists of: | | |
| Allowance for tax | | 1 |
| Net (gain)/loss [1] | **(10)** | 11 |
| Projected unrecognised funded (surplus)/obligation | **(10)** | 12 |
| **Recognised funded surplus** [2] | **14** | 13 |

[1] The unrecognised net (gain)/loss is being amortised over ten years.

[2] Recognised funded surplus included within note 20, Investments.

# Notes to the Financial Statements

## 34 Retirement plans continued

| | June 2006 NZ$M | June 2005 NZ$M |
|---|---|---|
| **Movement in recognised funded surplus** | | |
| Recognised funded surplus at the beginning of the year | **13** | 9 |
| Exchange rate adjustment | **1** | |
| Acquisitions | | 3 |
| Net periodic pension cost | **(16)** | (6) |
| Employer contributions | **16** | 7 |
| Settlements and curtailments | | |
| **Recognised funded surplus at the end of the year** | **14** | |
| **Assets of the plans** | | |
| Assets of plans at fair value as at the beginning of the year | **461** | 311 |
| Actual return on assets | **71** | 30 |
| Total contributions | **24** | 9 |
| Benefit payments | **(41)** | (11) |
| Settlements and curtailments | **(4)** | |
| Acquisitions | | 122 |
| Exchange rate adjustment | **22** | |
| | **533** | 461 |

# Notes to the Financial Statements

## 34 Retirement plans continued

| | June 2006 NZ$M | June 2005 NZ$M |
|---|---|---|
| **Assets of the plans consist of:** | | |
| Australasian equities | **140** | 111 |
| International equities | **134** | 117 |
| Property | **39** | 34 |
| Bonds | **82** | 70 |
| Cash and short-term deposits | **134** | 128 |
| Other assets | **4** | 1 |
| | **533** | 461 |
| **Projected benefit obligation** | | |
| Projected benefit obligation as at the beginning of the year | **(460)** | (303) |
| Service cost | **(22)** | (11) |
| Interest cost | **(34)** | (15) |
| Member contributions | **(8)** | (3) |
| Actuarial gain/(loss) arising on experience adjustments – the difference between the expected and actual outcomes | **(3)** | 2 |
| Actuarial gain/(loss) arising on movements in the discount rate | **(6)** | (22) |
| Benefit payments | **41** | 11 |
| Settlements and curtailments | **4** | |
| Acquisitions | | (119) |
| Exchange rate adjustment | **(21)** | |
| | **(509)** | (460) |

# Notes to the Financial Statements

## 34 Retirement plans continued

**Assumptions used**

The following table provides the weighted average assumptions used to develop the net periodic pension cost and the actuarial present value of projected benefit obligations for the group's plans:

| | 2006 % | 2005 % |
|---|---|---|
| Assumed discount rate on benefit obligations | **4.29** | 4.07 |
| Expected annual rate of return on plan assets | **6.36** | 6.28 |
| Annual rate of increase in future compensation levels | **3.95** | 3.88 |

Expected returns on plan assets have been determined by the independent actuaries as the weighted average of the expected return after tax and investments fees for each asset class by the target allocation of assets to each class.

The group expects to contribute A$10 million to its Australian plans during the year to 30 June 2007. No contribution is expected to be made to the New Zealand plan due to its surplus funded position.

| | June 2006 NZ$M | June 2005 NZ$M |
|---|---|---|
| **Trend data** | | |
| Projected benefit obligation | **(509)** | (460) |
| Assets of the plans | **533** | 461 |
| Funded surplus/(obligation) | **24** | 1 |
| Experience adjustments on plan obligations | **(3)** | 2 |
| Experience adjustments on plan assets | **30** | 9 |

# Notes to the Financial Statements

## 35 Shared based payments

**Employee share purchase scheme**

Since 2002 the group has implemented three employee share purchase schemes, all complying with either section DF7 of the Income Tax Act 1994 or section DC11 of the Income Tax Act 2004, whereby the group lends employees a maximum of $2,340 to purchase shares in the company. Each full time or part time employee is eligible to subscribe for a number of shares at an issue price determined at the time of announcement, which represents a discount to the market price. These shares vest in the employees after a three year restricted period. The employees can participate in more than one scheme at a time, but to a maximum value of $2,340. In 2002 the group issued the shares to the employees at a discounted price, however in 2004 and 2005 the shares were purchased on market and sold to the employees at the discounted price.

Offers of shares to employees in Australia are made on essentially the same terms as these schemes for New Zealand based employees. As required by the Income Tax Acts the consideration for the shares was funded by an interest free loan to each employee, which will be repaid over a three year restricted period. At 30 June 2006 the total receivable owing from the employees is $6 million (June 2005 $4 million). The shares allocated to employees are held on behalf of the employees by the trustee, which is Fletcher Building Share Schemes Limited. Employees are entitled to receive the dividends on the shares. Voting rights on the shares, which have not been exercised, are held by the directors of the trustee company on behalf of the employees. Peter Merry, John McDonald and Grant Niccol have been appointed by the company as directors of Fletcher Building Share Schemes Limited.

# Notes to the Financial Statements

## 35 Shared based payments continued

The following are details in regards to the share schemes:

| | 2005 Scheme | 2004 Scheme | 2002 Scheme |
|---|---|---|---|
| Date of announcement | 10 October 2005 | 6 September 2004 | 19 August 2002 |
| Grant date | 1 December 2005 | 1 November 2004 | 1 October 2002 |
| Number of shares granted | 695,525 | 1,361,775 | 1,368,500 |
| Consideration per share at grant date | $7.54 | $5.66 | $2.34 |
| Total consideration paid/issue amount | $5,242,517 | $7,706,488 | $3,202,290 |
| Discount to market price at time of announcement | 19% | 17% | 18% |
| Grant price to employees per share | $6.24 | $4.25 | $2.34 |
| Total grant value | $4,340,076 | $5,787,544 | $3,202,290 |
| Discount to employees per share | $1.30 | $1.41 | |
| Maximum number of shares per employee | 375 | 550 | 1,000 |
| Vesting date | 30 November 2008 | 31 October 2007 | 30 September 2005 |
| Number of shares: | | | |
| Number of shares originally granted | 695,525 | 1,361,775 | 1,368,500 |
| Less forfeited over life of scheme | (17,825) | (114,800) | (247,000) |
| Less vested over life of scheme | (17,825) | (105,925) | (1,121,500) |
| Number of shares held at 30 June 2006 | 659,875 | 1,141,050 | |
| Number of shares: | | | |
| Balance brought forward 1 July 2005 | | **1,254,200** | **1,136,500** |
| Number of shares granted in year | **695,525** | | |
| Less forfeited in year | **(17,825)** | **(78,675)** | **(15,000)** |
| Less vested in year | **(17,825)** | **(34,475)** | **(1,121,500)** |
| Balance carried forward 30 June 2006 | **659,875** | **1,141,050** | |

# Notes to the Financial Statements

## 35 Shared based payments continued

| | June 2006 NZ$ | June 2005 NZ$ | June 2004 NZ$ |
|---|---|---|---|
| Total discount expensed in year for employee share purchase schemes | **$902,441** | $1,918,944 | |

**Executive performance share scheme**

With effect from 1 October 2004, the group introduced a long term incentive scheme targeted at the executives most able to influence the results of the group. Payment of any benefit is dependent upon the group's total shareholder return exceeding the 51st percentile of the total shareholder return of a comparative group of companies over a three year restricted period. The group purchased shares on market which were sold to the executives and funded by an interest free loan to each executive. The shares allocated to executives are held by the trustee company with executives entitled to vote on the shares and to receive dividends, the proceeds of which are used to repay the interest free loan.

At the end of the three year restricted period the group will pay a bonus to the executives to the extent the performance targets have been met, sufficient for the executives to repay the balance of the interest free loan on those shares which vest. The shares upon which performance targets have been met will then fully vest to the executives. The loan owing on shares upon which performance targets have not been met (the forfeited shares) will be novated from the executives to the trustee and will be fully repaid by the transfer of the forfeited shares. The receivable from the executives, which is secured only against the shares held in the company, have been accounted for under the treasury stock method and deducted from paid up capital.

# Notes to the Financial Statements

## 35 Shared based payments continued

The following are details of the share schemes:

| | 2005 Scheme | 2004 Scheme |
|---|---|---|
| Grant date | 1 October 2005 | 1 October 2004 |
| Number of shares granted | 400,128 | 426,599 |
| Market price per share at grant date | $7.80 | $6.39 |
| Total consideration paid | $3,120,998 | $2,725,968 |
| Vesting date | 30 September 2008 | 30 September 2007 |
| Maximum bonus payable – expensed over three years | $5,384,220 | $4,799,193 |
| Number of shares: | | |
| Number of shares originally granted | 400,128 | 426,599 |
| Less forfeited over life of scheme | (7,202) | (8,412) |
| Less vested over life of scheme | (13,999) | (19,625) |
| Number of shares held at 30 June 2006 | 378,927 | 398,562 |
| Number of shares: | | |
| Balance brought forward 1 July 2005 | | **426,599** |
| Number of shares granted in year | **400,128** | |
| Less forfeited in year | **(7,202)** | **(8,412)** |
| Less vested in year | **(13,999)** | **(19,625)** |
| Balance carried forward 30 June 2006 | **378,927** | **398,562** |

| | June 2006 NZ$ | June 2005 NZ$ |
|---|---|---|
| Total amount expensed in year for executive performance share schemes | **$3,394,471** | $1,599,731 |

# Notes to the Financial Statements

## 36 Segmental information

| | Building Products NZ$M | Distribution NZ$M | Infrastructure NZ$M | Laminates & Panels NZ$M | Other NZ$M | Total Group NZ$M |
|---|---|---|---|---|---|---|
| **Industry segments** | | | | | | |
| **Year Ended 30 June 2006** | | | | | | |
| Sales – gross | 1,838 | 968 | 1,919 | 1,089 | 8 | 5,822 |
| Sales – inter segment | (127) | (12) | (96) | (62) | (5) | (302) |
| Sales – external | 1,711 | 956 | 1,823 | 1,027 | 3 | 5,520 |
| Operating earnings (EBIT) | 235 | 75 | 255 | 116 | (6) | 675 |
| Equity earnings included in EBIT above | 15 | | 4 | 10 | | 29 |
| Total assets | 1,316 | 243 | 1,243 | 1,108 | 189 | 4,099 |
| Investments in associates included in assets above | 14 | | 30 | 69 | | 113 |
| Total liabilities | 341 | 143 | 457 | 187 | 1,171 | 2,299 |
| Capex | 51 | 17 | 128 | 69 | 1 | 266 |
| Depreciation expense | 38 | 8 | 57 | 40 | | 143 |

# Notes to the Financial Statements

## 36 Segmental information continued

| | Building Products NZ$M | Distribution NZ$M | Infrastructure NZ$M | Laminates & Panels NZ$M | Other NZ$M | Total Group NZ$M |
|---|---|---|---|---|---|---|
| **Industry segments** | | | | | | |
| **Year Ended 30 June 2005** | | | | | | |
| Sales – gross | 1,433 | 931 | 1,531 | 1,000 | 8 | 4,903 |
| Sales – inter segment | (109) | (11) | (90) | (52) | (5) | (267) |
| Sales – external | 1,324 | 920 | 1,441 | 948 | 3 | 4,636 |
| Operating earnings (EBIT) | 227 | 81 | 196 | 107 | 1 | 612 |
| Equity earnings included in EBIT above | 15 | | 3 | 9 | | 27 |
| Total assets | 1,202 | 242 | 1,063 | 957 | 193 | 3,657 |
| Investments in associates included in assets above | 12 | | 31 | 60 | | 103 |
| Total liabilities | 318 | 148 | 383 | 172 | 1,209 | 2,230 |
| Capex | 313 | 24 | 309 | 31 | 127 | 804 |
| Depreciation expense | 30 | 7 | 49 | 42 | | 128 |

# Notes to the Financial Statements

## 36 Segmental information continued

| | Australia NZ$M | New Zealand NZ$M | Other NZ$M | Group NZ$M |
|---|---|---|---|---|
| **Geographic Segments** | | | | |
| **Year Ended 30 June 2006** | | | | |
| Sales – external | 1,859 | 3,389 | 272 | 5,520 |
| Operating earnings (EBIT) | 211 | 436 | 28 | 675 |
| Equity earnings included in EBIT above | 11 | 17 | 1 | 29 |
| Total assets | 1,916 | 2,010 | 173 | 4,099 |
| Investments in associates included in assets above | 81 | 29 | 3 | 113 |
| Total liabilities | 715 | 1,506 | 78 | 2,299 |
| Capex | 72 | 181 | 13 | 266 |
| Depreciation expense | 55 | 82 | 6 | 143 |

# Notes to the Financial Statements

## 36 Segmental information continued

| | Australia NZ$M | New Zealand NZ$M | Other NZ$M | Group NZ$M |
|---|---|---|---|---|
| **Year Ended 30 June 2005** | | | | |
| Sales – external | 1,184 | 3,223 | 229 | 4,636 |
| Operating earnings (EBIT) | 135 | 452 | 25 | 612 |
| Equity earnings included in EBIT above | 9 | 17 | 1 | 27 |
| Total assets | 1,658 | 1,876 | 123 | 3,657 |
| Investments in associates included in assets above | 68 | 24 | 11 | 103 |
| Total liabilities | 618 | 1,569 | 43 | 2,230 |
| Capex | 620 | 162 | 22 | 804 |
| Depreciation expense | 44 | 80 | 4 | 128 |

## 37 International Financial Reporting Standards

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 group's financial statements comply with NZ IFRS for the year commencing 1 July 2005. The first interim financial statements prepared under NZ IFRS was for the six months ended 31 December 2005 and the first annual financial statements are for the year ended 30 June 2006.

In preparing the 30 June 2006 financial statements using NZ IFRS, the group has restated the comparative financial statements, except for financial instruments. As permitted by NZ IFRS 1, the group has adopted IAS 32 and IAS 39 "Financial Instruments" prospectively from 1 July 2005, and comparative balances have not been restated. Most adjustments required on transition to NZ IFRS were made retrospectively against opening retained earnings at 30 June 2004, however transitional adjustments relating to those standards where comparatives are not required, were made at 1 July 2005.

# Notes to the Financial Statements

## 37 International Financial Reporting Standards continued

A full reconciliation of the restated numbers of the earnings statement, equity and the balance sheet, showing the effects of changes in presentation arising from adoption of NZ IFRS is available on our website at www.fletcherbuilding.co.nz. A summary of the changes is as follows:

| | Fletcher Building Group | | | | |
|---|---|---|---|---|---|
| | Equity NZ$M | Liabilities NZ$M | Total Assets NZ$M | Operating Earnings NZ$M | Net Earnings NZ$M |
| **Reported at 30 June 2005 using NZ GAAP** | 1,485 | 2,155 | 3,640 | 596 | 330 |
| Increase in goodwill and deferred tax liability [1, 4] | | 62 | 62 | | |
| Redundancies [1] | (2) | | (2) | (3) | (2) |
| Goodwill amortisation [1, 2] | 24 | | 24 | 11 | 11 |
| Retirement plans [1, 3] | (56) | | (56) | 8 | 8 |
| Deferred tax [4] | (10) | | (10) | | |
| Prepaid expenses [5] | | (3) | (3) | | |
| Long service leave accrued [4, 6] | (11) | 16 | 5 | | |
| Treasury stock [9] | (3) | | (3) | | |
| Total adjustments | (58) | 75 | 17 | 16 | 17 |
| **Restated balance under NZ IFRS at 30 June 2005** | 1,427 | 2,230 | 3,657 | 612 | 347 |

# Notes to the Financial Statements

## 37 International Financial Reporting Standards continued

| | Fletcher Building Group | | | | |
|---|---|---|---|---|---|
| | Equity NZ$M | Liabilities NZ$M | Total Assets NZ$M | Operating Earnings NZ$M | Net Earnings NZ$M |
| **Reported at 31 December 2004 using NZ GAAP** | 1,226 | 1,675 | 2,901 | 288 | 161 |
| Increase in goodwill and deferred tax [1,4] | | 50 | 50 | | |
| Goodwill amortisation [1,2] | 19 | | 19 | 6 | 6 |
| Retirement plans [1,3] | (59) | | (59) | 5 | 5 |
| Deferred tax [4] | (10) | | (10) | | |
| Prepaid expenses [5] | | (3) | (3) | | |
| Long service leave accrued [4,6] | (11) | 16 | 5 | | |
| Total adjustments | (61) | 63 | 2 | 11 | 11 |
| **Restated balance under NZ IFRS at 31 December 2004** | 1,165 | 1,738 | 2,903 | 299 | 172 |
| **Reported at 30 June 2004 using NZ GAAP** | 1,118 | 1,672 | 2,790 | | |
| Increase in goodwill and deferred tax [1,4] | | 51 | 51 | | |
| Goodwill amortisation [1] | 13 | | 13 | | |
| Retirement plans [1,3] | (64) | | (64) | | |
| Deferred tax [4] | (10) | | (10) | | |
| Prepaid expenses [5] | | (3) | (3) | | |
| Long service leave accrued [4,6] | (11) | 16 | 5 | | |
| Total adjustments | (72) | 64 | (8) | | |
| **Restated balance under NZ IFRS at 30 June 2004** | 1,046 | 1,736 | 2,782 | | |

# Notes to the Financial Statements

## 37 International Financial Reporting Standards continued

**1 Remeasurement of business combinations**

The group has applied NZ IFRS to all business combinations that have occurred since 1 July 2002 and re-performed the fair value exercise, including the acquisition of the Laminex group in November 2002, the Tasman Building Products group in September 2003 and the Amatek group in March 2005. A deferred tax liability of $62 million at June 2005 (December 2004 $50 million; June 2004 $51 million) in respect of brands has been recognised, increasing goodwill.

Goodwill of $24 million amortised to June 2005 (December 2004 $19 million; June 2004 $13 million) has been reversed, with the $13 million at June 2004 taken to retained earnings. The $11 million and $6 million amortised in the year to June 2005 and the six months ended December 2004 respectively have been reversed to the earnings statement. The total amount of goodwill reversed comprises $18 million amortisation of goodwill and $6 million of goodwill amortised on investments in associates under the equity method of accounting at June 2005 (December 2004 $14 million, $5 million; June 2004 $9 million, $4 million).

The re-performance of the fair value exercise has resulted in additional goodwill of $2 million being recognised at June 2005 as a result of the reduction of the pension asset recognised on the Amatek acquisition. Redundancy costs of $3 million ($2 million net of tax) charged to goodwill by the Amatek group, has been, under NZ IFRS, written off to earnings for the year and goodwill reduced accordingly.

**2 Goodwill**

Goodwill relating to the acquisition of the Laminex group, the Tasman Building Products group and the Amatek group was previously amortised over 20 years. NZ IFRS does not permit this to be amortised, but subjects it to an annual impairment test. This has increased earnings by $11 million in the year ended June 2005 (six months ended December 2004 $6 million), including goodwill amortised on investments in associates.

**3 Defined benefit scheme obligations**

The group previously accounted for its retirement plans under NZ GAAP in accordance with Statement of Financial Accounting Standard (FAS) 87, Employers Accounting for Pensions. The unamortised losses of $57 million recognised at June 2004 and an increase in the pension obligation of $7 million as at June 2004 which must be recognised under NZ IFRS, results in $64 million being written-off the investment value and taken to retained earnings upon first time adoption of NZ IFRS.

# Notes to the Financial Statements

## 37 International Financial Reporting Standards continued

Under NZ GAAP the unamortised loss would be amortised over ten years and the change in policy has increased earnings by $8 million in the year ended June 2005 (six months ended December 2004 $5 million). The ongoing accounting for these plans under NZ IFRS is broadly similar to that currently required under FAS 87.

The net pension asset recognised upon the acquisition of the Amatek group has decreased by $2 million under NZ IFRS compared to the asset recognised under FAS 87. This has increased the goodwill recognised in the acquisition.

**4 Taxation**
NZ IFRS specifies the use of the balance sheet approach rather than the profit and loss account approach required under NZ GAAP. This has meant the recognition for the first time of the following deferred tax assets or liabilities.

A deferred tax liability of $7 million on asset revaluations above historic cost at June 2005 (December 2004 $7 million; June 2004 $7 million).

A deferred tax liability on the value of brands of $62 million at June 2005 (December 2004 $50 million; June 2004 $51 million).

A deferred tax benefit on long service obligations of $5 million at June 2005 (December 2004 $5 million; June 2004 $5 million).

A deferred tax liability on the value of the retirement plans of $4 million at June 2005 (December 2004 $3 million; June 2004 $3 million).

A deferred tax liability on the fair value of financial instruments of $1 million at 1 July 2005.

**5 Financial instruments**
Accounting for financial instruments under NZ IFRS involves some major changes from NZ GAAP. NZ IFRS is very prescriptive on when a financial derivative can be considered an effective hedge of an underlying position or future cashflow. All derivative contracts have been carried at fair value on the group's balance sheet. If a derivative financial transaction does not qualify for hedge accounting, the mark-to-market fair value movement has been taken to earnings. If a derivative financial transaction does qualify for hedge accounting, the mark-to-market fair value movement has been taken to a reserve within equity. As all of the financial derivative instruments entered into are to protect the group's current position and are not speculative in nature, the majority of instruments have qualified for hedge accounting. The adoption of NZ IFRS requires a mark-to-market fair value gain of $4 million ($3 million net of tax) to be recognised against reserves at 1 July 2005. The previous policy was not to recognise the fair value of these transactions. In addition NZ IFRS requires prepaid expenses of $3 million to be netted off against the liability, rather than being shown as a separate asset, as previously treated under NZ GAAP.

**6 Long service leave**
Long service leave, under NZ GAAP was recognised when it vested, whereas under NZ IFRS this is recognised on an actuarial basis. An additional liability of $16 million has been recognised at June 2005 (December 2004 $16 million; June 2004 $16 million).

# Notes to the Financial Statements

## 37 International Financial Reporting Standards continued

### 7 Deemed historic cost adjustment to fixed assets

The carrying value of certain previously revalued items of land, buildings, and plant and machinery has been deemed as the historic cost upon first time adoption of NZ IFRS and accordingly will not be revalued going forward. Accordingly the balance of the asset revaluation reserve of $46 million at June 2004 has been transferred to retained earnings. There is no impact on equity, asset values or earnings from this change in policy.

### 8 Foreign currency translation reserve

The balance of the foreign currency translation reserve of $(38) million at June 2004 has been transferred to retained earnings upon first time adoption of NZ IFRS. There is no impact on earnings or equity from this change.

### 9 Treasury stock

In June 2005, an employee trust established by the company purchased 426,599 Fletcher Building shares for $2,725,968 under the executive performance share scheme, details of which were provided in the 2005 annual report. The shares are held by the trustee although the beneficial interest is held by the executives to whom they have been allocated. The group has now decided that these shares should be accounted for under the treasury stock method of accounting, whereby the shares are charged against the capital of the group and are not held as a separate asset. Accordingly a charge of $3 million representing the shares purchased in June 2005 has been made to reduce equity.

# Notes to the Financial Statements

## 37 International Financial Reporting Standards continued

**Fletcher Building Limited**

The following are the adjustments made to Fletcher Building Limited's balance sheet and earnings statement upon first time adoption of NZ IFRS. There were no adjustments required for the statement of cashflows. The balance of the foreign currency translation reserve of $10 million at June 2004 (June 2005 $11 million) has been transferred from the foreign currency translation reserve to retained earnings. Fletcher Building Limited previously revalued its investments in subsidiaries to their net asset backing. Under NZ IFRS this is required to be held at the lower of historic cost or recoverable value and the revaluation of $360 million at June 2004 (June 2005 $537 million) has been reversed. In addition certain investments in subsidiaries were written down by $22 million at June 2004 to reflect the permanent impairment in their value. Lastly, a mark-to-market fair value gain of $4 million ($3 million net of tax) has been recognised against reserves at 1 July 2005 in respect of the financial instruments held by Fletcher Building Limited.

| | Fletcher Building Limited | | | |
|---|---|---|---|---|
| | Equity June 2005 NZ$M | Equity June 2004 NZ$M | Retained Earnings June 2005 NZ$M | Retained Earnings June 2004 NZ$M |
| **Reported at 30 June using NZ GAAP** | 1,442 | 1,078 | (38) | (47) |
| Transfer of foreign currency translation reserve to retained earnings | | | 10 | 10 |
| Transfer of foreign currency translation reserve to earnings | | | 1 | |
| Reversal of revaluation of subsidiaries | (537) | (360) | | |
| Write-down of investment in subsidiaries | (22) | (22) | (22) | (22) |
| **Restated balance under NZ IFRS at 30 June** | 883 | 696 | (49) | (59) |
| Recognition of financial instruments at 1 July 2005 | 3 | | | |
| **Equity at 1 July 2005** | 886 | | | |

# Notes to the Financial Statements

## 37 International Financial Reporting Standards continued

| Earnings Statement – Fletcher Building Group | Year Ended June 2005 | | | Six Months Ended December 2004 | | |
|---|---|---|---|---|---|---|
| | Reported using NZ GAAP* NZ$M | Adjustments to comply with NZ IFRS NZ$M | Reported using NZ IFRS NZ$M | Reported using NZ GAAP* NZ$M | Adjustments to comply with NZ IFRS NZ$M | Reported using NZ IFRS NZ$M |
| Sales | 4,636 | | 4,636 | 2,159 | | 2,159 |
| Cost of goods sold | (3,304) | | (3,304) | (1,541) | | (1,541) |
| Gross margin | 1,332 | | 1,332 | 618 | | 618 |
| Selling and marketing expenses | (391) | | (391) | (176) | | (176) |
| Administration expenses [1, 3] | (362) | 5 | (357) | (163) | 5 | (158) |
| Share of profits of associates [1, 2] | 25 | 2 | 27 | 13 | 1 | 14 |
| Investment earnings | | | | | | |
| Other gains/(losses) | 2 | | 2 | 1 | | 1 |
| Amortisation of goodwill & intangibles [1, 2] | (10) | 9 | (1) | (5) | 5 | |
| Operating earnings | 596 | 16 | 612 | 288 | 11 | 299 |
| Funding costs | (77) | | (77) | (33) | | (33) |
| Earnings before taxation | 519 | 16 | 535 | 255 | 11 | 266 |
| Taxation expense | (167) | 1 | (166) | (82) | | (82) |
| **Earnings after taxation** | 352 | 17 | 369 | 173 | 11 | 184 |
| Earnings attributable to minority interests | (22) | | (22) | (12) | | (12) |
| **Net earnings attributable to the shareholders** | 330 | 17 | 347 | 161 | 11 | 172 |

# Notes to the Financial Statements

## 37 International Financial Reporting Standards continued

| Earnings Statement – Fletcher Building Group | Year Ended June 2005 | | | Six Months Ended December 2004 | | |
|---|---|---|---|---|---|---|
| | Reported using NZ GAAP* NZ$M | Adjustments to comply with NZ IFRS NZ$M | Reported using NZ IFRS NZ$M | Reported using NZ GAAP* NZ$M | Adjustments to comply with NZ IFRS NZ$M | Reported using NZ IFRS NZ$M |
| Net earnings per share (cents) | | | | | | |
| Basic | 73.8 | | 77.6 | 36.7 | | 39.2 |
| Diluted | 69.8 | | 73.2 | 34.5 | | 36.7 |
| Weighted average number of shares outstanding (millions of shares) | | | | | | |
| Basic | 447 | | 447 | 439 | | 439 |
| Diluted | 504 | | 504 | 501 | | 501 |
| Dividends declared per share (cents) | 32.0 | | 32.0 | 15.0 | | 15.0 |

* The earnings statement has been reclassified in order to comply with the functional disclosures required under NZ IFRS. There has been no change in net earnings from this reclassification.

# Notes to the Financial Statements

## 37 International Financial Reporting Standards continued

| Balance Sheet – Fletcher Building Group | | | 30 June 2005 | | 1 July 2005 |
|---|---|---|---|---|---|
| | Reported using NZ GAAP* NZ$M | Adjustments to comply with NZ IFRS NZ$M | Reported using NZ IFRS NZ$M | Adjustments financial instruments NZ$M | Reported using NZ IFRS NZ$M |
| **Assets** | | | | | |
| Current assets: | | | | | |
| Cash and liquid deposits | 52 | | 52 | | 52 |
| Current tax asset | (1) | | (1) | | (1) |
| Debtors [5, 9] | 823 | (6) | 817 | 4 | 821 |
| Stocks | 616 | | 616 | | 616 |
| Total current assets | 1,490 | (6) | 1,484 | 4 | 1,488 |
| Non-current assets: | | | | | |
| Fixed assets | 1,392 | | 1,392 | | 1,392 |
| Goodwill [1, 2] | 228 | 81 | 309 | | 309 |
| Intangibles | 205 | | 205 | | 205 |
| Investments in associates [2, 3] | 97 | 6 | 103 | | 103 |
| Investments [2, 3] | 74 | (58) | 16 | | 16 |
| Deferred taxation asset [4] | 154 | (6) | 148 | (1) | 147 |
| Total non-current assets | 2,150 | 23 | 2,173 | (1) | 2,172 |
| **Total assets** | 3,640 | 17 | 3,657 | 3 | 3,660 |

# Notes to the Financial Statements

## 37 International Financial Reporting Standards continued

| Balance Sheet – Fletcher Building Group | | | 30 June 2005 | | 1 July 2005 |
|---|---|---|---|---|---|
| | Reported using NZ GAAP* NZ$M | Adjustments to comply with NZ IFRS NZ$M | Reported using NZ IFRS NZ$M | Adjustments financial instruments NZ$M | Reported using NZ IFRS NZ$M |
| **Liabilities** | | | | | |
| Current liabilities: | | | | | |
| Short-term loans | 6 | | 6 | | 6 |
| Provisions | 54 | | 54 | | 54 |
| Creditors and accruals | 761 | | 761 | | 761 |
| Contracts | 93 | | 93 | | 93 |
| Capital notes | 33 | | 33 | | 33 |
| Term debt | 292 | | 292 | | 292 |
| Total current liabilities | 1,239 | | 1,239 | | 1,239 |
| Non-current liabilities: | | | | | |
| Provisions | 10 | | 10 | | 10 |
| Creditors and accruals [6] | 42 | 16 | 58 | | 58 |
| Deferred taxation liability [1, 4] | | 62 | 62 | | 62 |
| Capital notes [5] | 317 | (3) | 314 | | 314 |
| Term debt | 547 | | 547 | | 547 |
| Total non-current liabilities | 916 | 75 | 991 | | 991 |
| **Total liabilities** | 2,155 | 75 | 2,230 | | 2,230 |

# Notes to the Financial Statements

## 37 International Financial Reporting Standards continued

| Balance Sheet – Fletcher Building Group | | | 30 June 2005 | | 1 July 2005 |
|---|---|---|---|---|---|
| | Reported using NZ GAAP* NZ$M | Adjustments to comply with NZ IFRS NZ$M | Reported using NZ IFRS NZ$M | Adjustments financial instruments NZ$M | Reported using NZ IFRS NZ$M |
| **Equity** | | | | | |
| Reported capital [9] | 932 | (3) | 929 | | 929 |
| Retained earnings [1-4, 6-8] | 514 | (47) | 467 | | 467 |
| Other reserves [5, 7, 8] | (4) | (8) | (12) | 3 | (9) |
| Shareholders' funds | 1,442 | (58) | 1,384 | 3 | 1,387 |
| Minority equity | 43 | | 43 | | 43 |
| **Total equity** | 1,485 | (58) | 1,427 | 3 | 1,430 |
| **Total liabilities and equity** | 3,640 | 17 | 3,657 | 3 | 3,660 |

* The balance sheet has been reclassified in order to comply with the functional disclosures required under NZ IFRS.

# Notes to the Financial Statements

## 37 International Financial Reporting Standards continued

### Balance Sheet – Fletcher Building Group

| | 31 December 2004 | | | 30 June 2004 | | |
|---|---|---|---|---|---|---|
| | Reported using NZ GAAP* NZ$M | Adjustments to comply with NZ IFRS NZ$M | Reported using NZ IFRS NZ$M | Reported using NZ GAAP* NZ$M | Adjustments to comply with NZ IFRS NZ$M | Reported using NZ IFRS NZ$M |
| **Assets** | | | | | | |
| Current assets: | | | | | | |
| Cash and liquid deposits | 91 | | 91 | 77 | | 77 |
| Debtors [5] | 648 | (3) | 645 | 633 | (3) | 630 |
| Stocks | 534 | | 534 | 464 | | 464 |
| Total current assets | 1,273 | (3) | 1,270 | 1,174 | (3) | 1,171 |
| Non-current assets: | | | | | | |
| Fixed assets | 1,048 | | 1,048 | 1,023 | | 1,023 |
| Goodwill [1, 2] | 170 | 64 | 234 | 176 | 60 | 236 |
| Intangibles | 164 | | 164 | 166 | | 166 |
| Investments in associates [2, 3] | 97 | 5 | 102 | 88 | 4 | 92 |
| Investments [2, 3] | 66 | (59) | 7 | 71 | (64) | 7 |
| Deferred taxation asset [4] | 83 | (5) | 78 | 92 | (5) | 87 |
| Total non-current assets | 1,628 | 5 | 1,633 | 1,616 | (5) | 1,611 |
| **Total assets** | 2,901 | 2 | 2,903 | 2,790 | (8) | 2,782 |

# Notes to the Financial Statements

## 37 International Financial Reporting Standards continued

| Balance Sheet – Fletcher Building Group | 31 December 2004 | | | 30 June 2004 | | |
|---|---|---|---|---|---|---|
| | Reported using NZ GAAP* NZ$M | Adjustments to comply with NZ IFRS NZ$M | Reported using NZ IFRS NZ$M | Reported using NZ GAAP* NZ$M | Adjustments to comply with NZ IFRS NZ$M | Reported using NZ IFRS NZ$M |
| **Liabilities** | | | | | | |
| Current liabilities: | | | | | | |
| Short-term loans | 12 | | 12 | 8 | | 8 |
| Provisions | 48 | | 48 | 59 | | 59 |
| Creditors and accruals | 585 | | 585 | 569 | | 569 |
| Contracts | 87 | | 87 | 75 | | 75 |
| Current taxation liability | 54 | | 54 | 6 | | 6 |
| Capital notes | 68 | | 68 | 68 | | 68 |
| Term debt | 39 | | 39 | 33 | | 33 |
| Total current liabilities | 893 | | 893 | 818 | | 818 |
| Non-current liabilities: | | | | | | |
| Provisions [6] | 14 | | 14 | 17 | | 17 |
| Creditors and accruals | 22 | 16 | 38 | 21 | 16 | 37 |
| Deferred taxation liability [1, 4] | | 50 | 50 | | 51 | 51 |
| Capital notes [5] | 332 | (3) | 329 | 332 | (3) | 329 |
| Term debt | 414 | | 414 | 484 | | 484 |
| Total non-current liabilities | 782 | 63 | 845 | 854 | 64 | 918 |
| **Total liabilities** | 1,675 | 63 | 1,738 | 1,672 | 64 | 1,736 |

# Notes to the Financial Statements

## 37 International Financial Reporting Standards continued

| Balance Sheet – Fletcher Building Group | 31 December 2004 | | | 30 June 2004 | | |
|---|---|---|---|---|---|---|
| | Reported using NZ GAAP* NZ$M | Adjustments to comply with NZ IFRS NZ$M | Reported using NZ IFRS NZ$M | Reported using NZ GAAP* NZ$M | Adjustments to comply with NZ IFRS NZ$M | Reported using NZ IFRS NZ$M |
| **Equity** | | | | | | |
| Reported capital | 780 | | 780 | 754 | | 754 |
| Retained earnings [1-4, 6-8] | 415 | (53) | 362 | 315 | (64) | 251 |
| Other reserves [5, 7, 8] | (8) | (8) | (16) | 9 | (8) | 1 |
| Shareholders' funds | 1,187 | (61) | 1,126 | 1,078 | (72) | 1,006 |
| Minority equity | 39 | | 39 | 40 | | 40 |
| **Total equity** | 1,226 | (61) | 1,165 | 1,118 | (72) | 1,046 |
| **Total liabilities and equity** | 2,901 | 2 | 2,903 | 2,790 | (8) | 2,782 |

* The balance sheet has been reclassified in order to comply with the functional disclosures required under NZ IFRS.

# Audit Report

## To the shareholders of Fletcher Building Limited

We have audited the financial statements on pages 74 to 170. The financial statements provide information about the past financial performance and financial position of the company and group as at 30 June 2006. This information is stated in accordance with the accounting policies set out on pages 86 to 93.

**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 and group as at 30 June 2006 and the results of their 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 and group'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 and certain of its subsidiaries in relation to taxation and general accounting services. Partners and employees of our firm may also deal with the company and group on normal terms within the ordinary course of trading activities of the business of the company and group. These matters have not impaired our independence as auditors of the company and group. The firm has no other relationship with, or interest in, the company or any of its subsidiaries.

# Audit Report

## To the shareholders of Fletcher Building Limited continued

**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 74 to 170.

  - comply with New Zealand generally accepted accounting practice;
  - give a true and fair view of the financial position of the company and group as at 30 June 2006 and the results of their 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

# Trend Statement

| | June 2006 | June 2005 | June 2004 | June 2003 | June 2002 | June 2001 |
|---|---|---|---|---|---|---|
| Notes | | 6 | 5 | 4 | 2 | 1, 2, 3 |
| | NZ$M | NZ$M | NZ$M | NZ$M | NZ$M | NZ$M |
| **Financial performance** | | | | | | |
| Sales/revenue | 5,520 | 4,636 | 3,958 | 3,221 | 2,966 | 2,273 |
| Operating earnings (EBIT) | 675 | 612 | 460 | 331 | 210 | (87) |
| Net earnings | 379 | 347 | 240 | 168 | 93 | (288) |
| Cashflow from operations | 560 | 479 | 424 | 276 | 187 | 251 |
| Earnings per share – basic (cents) | 81.3 | 77.6 | 55.7 | 43.4 | 27.0 | (83.7) |
| Dividends for the period (cents per share) | 40.0 | 32.0 | 25.0 | 19.0 | 14.0 | 12.0 |
| **Balance sheet** | | | | | | |
| Current assets | 1,699 | 1,484 | 1,171 | 1,021 | 794 | 851 |
| Non-current assets | 2,400 | 2,173 | 1,611 | 1,427 | 842 | 985 |
| Total assets | 4,099 | 3,657 | 2,782 | 2,448 | 1,636 | 1,836 |
| Current liabilities | 1,207 | 1,239 | 818 | 776 | 669 | 681 |
| Non-current liabilities | 1,092 | 991 | 918 | 812 | 376 | 615 |
| Total liabilities | 2,299 | 2,230 | 1,736 | 1,588 | 1,045 | 1,296 |
| Capital | 970 | 929 | 754 | 628 | 455 | 449 |
| Reserves | 786 | 455 | 252 | 195 | 109 | 89 |
| Minority equity | 44 | 43 | 40 | 37 | 27 | 2 |
| Total equity | 1,800 | 1,427 | 1,046 | 860 | 591 | 540 |
| Total liabilities and equity | 4,099 | 3,657 | 2,782 | 2,448 | 1,636 | 1,836 |

# Trend Statement

| Notes | June 2006<br>NZ$M | June 2005<br>6<br>NZ$M | June 2004<br>5<br>NZ$M | June 2003<br>4<br>NZ$M | June 2002<br>2<br>NZ$M | June 2001<br>1, 2, 3<br>NZ$M |
|---|---|---|---|---|---|---|
| **Other financial data** | | | | | | |
| Return on average funds (%) [7] | 26.1 | 29.3 | 24.7 | 24.4 | 23.1 | (8.6) |
| Return on average equity (%) [8] | 24.6 | 29.5 | 24.3 | 23.0 | 16.9 | (43.8) |
| Net debt/net debt plus equity (%) | 37.1 | 44.4 | 43.1 | 49.9 | 40.2 | 49.2 |
| Net tangible assets per share ($) | 2.47 | 2.11 | 1.68 | 1.54 | 1.60 | 1.52 |
| Market capitalisation (NZ$m) | 4,296 | 3,207 | 1,987 | 1,490 | 953 | 817 |
| Total shareholders' return (%) | 40 | 61 | 33 | 43 | 24 | 6 |

[1] On 23 March 2001 Fletcher Challenge Limited – Building Operations, a targeted share of Fletcher Challenge Limited became a stand alone publicly listed company, Fletcher Building Limited. The proforma accounts consolidate the results of both entities for the year.

[2] In the year ended 30 June 2001 the results of the Distribution division were included on an equity accounted basis. In the 2002 year the results were for 15 months on a consolidated basis.

[3] For the year ended 30 June 2001, capital notes were treated as a component of equity. Interest on the capital notes of $16m after tax was previously recorded as a distribution from equity, rather than in funding costs. This has been restated.

[4] The Laminex group was acquired on 13 November 2002.

[5] The Tasman Building Products group was acquired on 30 September 2003. The balance sheet at June 2004 has been restated under NZ IFRS.

[6] The Amatek Holdings group was acquired on 1 March 2005. The results for June 2005 have been restated under NZ IFRS.

[7] EBIT/Average (net debt + equity + capital notes – deferred tax asset).

[8] Net earnings/average shareholders' funds.

# Regulatory Disclosures

## Directors' relevant interests in equity securities at 30 June 2006

| | Ordinary Shares | | Capital Notes | |
|---|---|---|---|---|
| | Beneficial | Associated Persons | Beneficial | Associated Persons |
| P E A Baines | 22,115 | | | |
| R S Deane | 1,295 | 50,000 | | 300,000 |
| H A Fletcher | 9,028 | 790,620 | | 40,000 |
| G J McGrath | 40,000 | | | |
| D T Spring | 20,550 | 24,500 | | 50,000 |
| K M Vautier | 46,773 | 14,535 | 29,000 | 20,000 |
| R G Waters | 935,853 | 104,730 | | |
| | 1,075,614 | 984,385 | 29,000 | 410,000 |

## Share dealings by directors

During the year, directors disclosed in respect of section 148(2) of the Companies Act 1993 that they acquired or disposed of a relevant interest in shares as follows:

| Director | Number of Shares Acquired | Number of Shares Disposed | Consideration $ | Date |
|---|---|---|---|---|
| D T Spring | 10,000 | | 70,972 | 12/08/05 |
| K M Vautier | 2,561 | | | 18/08/05 |
| D T Spring | 5,000 | | 38,670 | 16/09/05 |
| K M Vautier | 1,279 | | 9,982 | 13/10/05 |
| R G Waters | 7,705 | | 60,133 | 13/10/05 |
| R G Waters | | 350,000 | 2,642,465 | 18/11/05 |
| P E A Baines | | 25,000* | 25,000 | 17/03/06 |
| K M Vautier | 1,311 | | 11,404 | 14/04/06 |
| R G Waters | 7,996 | | 69,555 | 13/04/06 |

* Capital notes repurchased on interest reset date.

# Regulatory Disclosures

## Directors' interests register

Directors' certificates to cover entries in the interests register in respect of remuneration, dealing in the company's securities, insurance and other interests have been disclosed as required by the Companies Act 1993.

In accordance with Section 140(2) of the Companies Act 1993, directors have advised changes in their interests during the year ended 30 June 2006 of:

| | | |
|---|---|---|
| H A Fletcher | Ceased to be a member of the Asia & Pacific Advisory Committee of the NYSE | 17/06/06 |
| | Resigned as a director of Ports of Auckland Limited | 30/06/06 |
| | Resigned as a director of VCU Technology Limited | 30/06/06 |
| R J Norris | Resigned as a director of Fletcher Building Limited | 9/08/05 |
| P E A Baines | Appointed chairman of Barnardos New Zealand Inc | 13/12/05 |
| | Appointed director of New Zealand School of Music Limited | 14/03/06 |
| | Resigned as a director of Telecom Corporation of New Zealand Limited | 30/06/06 |
| D T Spring | Appointed as a director of Northport Limited | 10/03/06 |
| | Appointed chairman of ANZ National Bank Limited | 16/06/06 |
| R S Deane | Resigned as chairman and director of ANZ National Bank Limited | 15/06/06 |
| | Resigned as chairman and director of Telecom Corporation of New Zealand Limited | 30/06/06 |
| | Resigned as a director of Australia and NZ Banking Group Limited | 30/06/06 |
| | Resigned as chairman and director of Te Papa Tongarewa (Museum of New Zealand) | 30/06/06 |

# Regulatory Disclosures

## Stock exchange listings

The company's shares are listed on the New Zealand (NZX) and Australian (ASX) stock exchanges.

**20 largest shareholders as at 25 August 2006**

| Name | Number of Shares | % of Shares |
|---|---|---|
| New Zealand Central Securities Depository Limited | 191,426,538 | 40.78 |
| RBC Dexia Investor Services Australia Nominees Pty Limited | 49,496,596 | 10.54 |
| National Nominees Limited | 34,520,886 | 7.35 |
| J P Morgan Nominees Australia Limited | 33,586,735 | 7.15 |
| Citicorp Nominees Pty Limited | 13,028,651 | 2.78 |
| Cogent Nominees Pty Limited | 11,220,868 | 2.39 |
| Westpac Custodian Nominees Limited | 7,946,797 | 1.69 |
| Queensland Investment Corporation | 6,652,532 | 1.42 |
| Masfen Holdings Limited | 3,338,854 | 0.71 |
| First NZ Capital Custodians Limited | 2,583,552 | 0.55 |
| Fletcher Building Share Schemes Limited | 2,469,293 | 0.53 |
| Custodial Services Limited | 2,331,966 | 0.50 |
| ANZ Nominees Limited | 1,977,816 | 0.42 |
| Fletcher Building Educational Fund Limited | 1,772,765 | 0.38 |
| USB Nominees Pty Limited | 1,768,582 | 0.38 |
| Investment Custodial Services Limited | 1,337,846 | 0.28 |
| Fletcher Building Nominees Limited | 1,227,525 | 0.26 |
| NZ Guardian Trust Company Limited | 1,182,507 | 0.25 |
| Arrow Wrights Limited | 790,620 | 0.17 |
| Ralph Graham Waters | 650,000 | 0.14 |

# Regulatory Disclosures

## Stock exchange listings continued

New Zealand Central Securities Depository Limited provides a custodial depository service that allows electronic trading of securities to its members and does not have a beneficial interest in these shares. Its major holders of Fletcher Building shares are:

| Name | Number of Shares | % of Shares |
|---|---|---|
| National Nominees New Zealand Limited | 68,321,459 | 14.55 |
| ANZ Nominees Limited | 27,792,137 | 5.92 |
| Westpac Banking Corporation | 24,916,710 | 5.31 |
| Citibank Nominees (New Zealand) Limited | 13,192,619 | 2.81 |
| Accident Compensation Corporation | 10,900,538 | 2.32 |
| NZ Superannuation Fund Nominees Limited | 7,118,470 | 1.52 |
| Tea Custodians Limited | 5,221,602 | 1.11 |
| Custody and Investment Nominees Limited | 3,698,106 | 0.79 |
| HSBC Nominees (NZ) Limited | 3,622,814 | 0.77 |
| Asteron Life Limited | 3,144,150 | 0.51 |

# Regulatory Disclosures

## Distribution of capital noteholders and holdings as at 25 August 2006

| Size of Holding | Number of Shareholders | % | Number of Shares | % |
|---|---|---|---|---|
| 1 – 999 | 9,768 | 33.23 | 3,970,284 | 0.85 |
| 1,000 – 4,999 | 15,271 | 51.95 | 30,584,521 | 6.51 |
| 5,000 – 9,999 | 2,506 | 8.52 | 16,304,979 | 3.47 |
| 10,000 – 49,999 | 1,656 | 5.63 | 27,937,246 | 5.95 |
| 50,000 – 99,999 | 98 | 0.33 | 6,362,457 | 1.36 |
| 100,000 – 499,999 | 64 | 0.22 | 12,290,144 | 2.62 |
| 500,000 and over | 35 | 0.12 | 372,013,380 | 79.24 |
| | 29,398 | 100.00 | 469,463,011 | 100.00 |

| Geographic Distribution | Number of Shareholders | % | Number of Shares | % |
|---|---|---|---|---|
| New Zealand | 26,517 | 90.20 | 298,418,168 | 63.57 |
| United States of America | 122 | 0.41 | 239,287 | 0.05 |
| Australia | 2,196 | 7.47 | 169,378,125 | 36.08 |
| Rest of the World | 563 | 1.92 | 1,427,431 | 0.30 |
| | 29,398 | 100.00 | 469,463,011 | 100.00 |

All shares issued are fully paid and have full voting rights. The number of shareholders holding less than the marketable parcel of A$500 under the listing rules of the ASX is 283.

The other equity securities on issue are $400 million capital notes, which can convert to ordinary shares of the company on the basis of 98 percent of the then current value of the shares. There were 13,746 holders of the capital notes at 25 August 2006. These equity securities are quoted on the NZX but are unquoted on the ASX.

# Regulatory Disclosures

## Distribution of shareholders and holdings as at 25 August 2006 continued

### Fletcher Building Limited

| Size of Holding | Number of Noteholders | % | Number of Capital Notes | % |
|---|---|---|---|---|
| 1,000 – 4,999 | 2,655 | 29.73 | 7,765,083 | 3.11 |
| 5,000 – 9,999 | 2,114 | 23.67 | 14,298,417 | 5.72 |
| 10,000 – 49,999 | 3,409 | 38.17 | 67,690,167 | 27.08 |
| 50,000 – 99,999 | 506 | 5.67 | 30,583,750 | 12.23 |
| 100,000 – 499,999 | 211 | 2.36 | 34,262,500 | 13.71 |
| 500,000 and over | 36 | 0.40 | 95,400,083 | 38.15 |
| | 8,931 | 100.00 | 250,000,000 | 100.00 |

### Fletcher Building Finance Limited

| Size of Holding | Number of Noteholders | % | Number of Capital Notes | % |
|---|---|---|---|---|
| 1,000 – 4,999 | 1 | 0.02 | 4,000 | 0.00 |
| 5,000 – 9,999 | 977 | 20.29 | 5,373,000 | 3.58 |
| 10,000 – 49,999 | 3,214 | 66.74 | 58,634,500 | 39.09 |
| 50,000 – 99,999 | 436 | 9.06 | 24,226,500 | 16.15 |
| 100,000 – 499,999 | 167 | 3.47 | 23,980,000 | 15.99 |
| 500,000 and over | 20 | 0.42 | 37,782,000 | 25.19 |
| | 4,815 | 100.00 | 150,000,000 | 100.00 |

# Regulatory Disclosures

## Substantial security holders

According to notices given to the company under the Securities Markets Act 1988, as at 25 August 2006, the substantial security holders in the company and their relevant interests are noted below. The total number of issued voting securities of Fletcher Building Limited as at that date was 469,463,011.

| Substantial Security Holders | Number of Voting Securities | Date of Notice |
|---|---|---|
| Perennial Value Management Limited | 41,857,171 | 25/05/06 |
| Commonwealth Bank of Australia | 28,228,541 | 11/01/06 |
| Perpetual Trustees Australia Limited | 67,370,858 | 19/11/04 |

## Limitations on the acquisition of the company's securities

The terms of the company's admission to the ASX require the following disclosure.

The company is incorporated in New Zealand. As such it is not subject to Chapters 6, 6A, 6B and 6C of the Australian Corporations Act dealing with the acquisition of shares (such as substantial holdings and takeovers). Limitations on acquisition of the securities are, however, imposed on the company under New Zealand law:

(a) Securities in the company are in general freely transferable and the only significant restrictions or limitations in relation to the acquisition of securities are those imposed by New Zealand laws relating to takeovers, overseas investment and competition.

(b) The New Zealand Takeovers Code creates a general rule under which the acquisition of more than 20 percent of the voting rights in the company or the increase of an existing holding of 20 percent or more of the voting rights in the company can only occur in certain permitted ways. These include a full takeover offer in accordance with the Takeovers Code, a partial takeover offer in accordance with the Takeovers Code, an acquisition approved by an ordinary resolution, an allotment approved by an ordinary resolution, a creeping acquisition (in certain circumstances) or compulsory acquisition if a shareholder holds 90 percent or more of the shares in the company.

(c) The New Zealand Overseas Investment Act 2005 and Overseas Investment Regulations regulate certain investments in New Zealand by overseas persons. In general terms, the consent of the New Zealand Overseas Investment Commission is likely to be required where an "overseas person" acquires shares or an interest in shares in the company that amount to more than 25 percent of the shares issued by the company or, if the overseas person already holds 25 percent or more, the acquisition increases that holding.

(d) The New Zealand Commerce Act 1986 is likely to prevent a person from acquiring shares in the company if the acquisition would have, or would be likely to have, the effect of substantially lessening competition in a market.

# Regulatory Disclosures

## Employee remuneration

Section 211(1) of the New Zealand Companies Act 1993 requires disclosure of remuneration and other benefits, including redundancy and other payments made on termination of employment, in excess of $100,000 per year, paid by the company or any of its subsidiaries worldwide to any employees who are not directors of the company. To give more appropriate information on total employees' remuneration, where there is a contractual commitment to provide incentive remuneration in respect of the year ended 30 June 2006 the amount accrued as at 30 June 2006 has also been included in the total remuneration disclosed below.

| | | Number of Employees | | |
|---|---|---|---|---|
| From NZ$ | To NZ$ | International Business Activities | New Zealand Business Activities | Total |
| 100,000 | 110,000 | 116 | 151 | 267 |
| 110,000 | 120,000 | 90 | 89 | 179 |
| 120,000 | 130,000 | 67 | 103 | 170 |
| 130,000 | 140,000 | 50 | 47 | 97 |
| 140,000 | 150,000 | 53 | 48 | 101 |
| 150,000 | 160,000 | 26 | 37 | 63 |
| 160,000 | 170,000 | 17 | 22 | 39 |
| 170,000 | 180,000 | 21 | 20 | 41 |
| 180,000 | 190,000 | 11 | 14 | 25 |
| 190,000 | 200,000 | 9 | 11 | 20 |
| 200,000 | 210,000 | 11 | 6 | 17 |
| 210,000 | 220,000 | 4 | 6 | 10 |
| 220,000 | 230,000 | 5 | 9 | 14 |
| 230,000 | 240,000 | 2 | 2 | 4 |
| 240,000 | 250,000 | 8 | 7 | 15 |
| 250,000 | 260,000 | 3 | 4 | 7 |
| 260,000 | 270,000 | 5 | 3 | 8 |
| 270,000 | 280,000 | 3 | 3 | 6 |
| 280,000 | 290,000 | 1 | 1 | 2 |

# Regulatory Disclosures

| From NZ$ | To NZ$ | Number of Employees International Business Activities | New Zealand Business Activities | Total |
|---|---|---|---|---|
| 290,000 | 300,000 | 1 | 2 | 3 |
| 300,000 | 310,000 | 2 | 3 | 5 |
| 310,000 | 320,000 | 2 | 2 | 4 |
| 320,000 | 330,000 | 1 | 4 | 5 |
| 330,000 | 340,000 | 2 | 1 | 3 |
| 340,000 | 350,000 | 1 | | 1 |
| 350,000 | 360,000 | 2 | 1 | 3 |
| 360,000 | 370,000 | 3 | 3 | 6 |
| 380,000 | 390,000 | 2 | 1 | 3 |
| 390,000 | 400,000 | 1 | 1 | 2 |
| 400,000 | 410,000 | | 1 | 1 |
| 450,000 | 460,000 | 1 | | 1 |
| 460,000 | 470,000 | 1 | 1 | 2 |
| 500,000 | 510,000 | 1 | | 1 |
| 520,000 | 530,000 | | 1 | 1 |
| 550,000 | 560,000 | | 1 | 1 |
| 630,000 | 640,000 | | 1 | 1 |
| 670,000 | 680,000 | | 1 | 1 |
| 780,000 | 790,000 | | 1 | 1 |
| 790,000 | 800,000 | | 1 | 1 |
| 820,000 | 830,000 | | 1 | 1 |
| 910,000 | 920,000 | 1 | | 1 |
| 920,000 | 930,000 | | 1 | 1 |
| | | 523 | 611 | 1,134 |

# Regulatory Disclosures

## Subsidiary company directors

Section 211(2) of the New Zealand Companies Act 1993 requires the company to disclose, in relation to its subsidiaries, the total remuneration and value of other benefits received by directors and former directors and particulars of entries in the interests registers made during the year ended 30 June 2006.

Apart from some overseas subsidiaries which have independent directors or are required to have a specific number of local residents as directors, no wholly owned subsidiary has directors who are not full-time employees of the group. The company had 200 subsidiaries worldwide at 30 June 2006.

No employee of Fletcher Building Limited appointed as a director of Fletcher Building Limited or its subsidiaries receives, or retains any remuneration or other benefits, as a director. The remuneration and other benefits of such employees, received as employees, are included in the relevant bandings for remuneration disclosed previously under Employee remuneration. Except where shown below, no other director of any subsidiary company within the group receives director's fees or other benefits as a director.

The following persons respectively held office as directors of subsidiary companies at the end of the year, or in the case of those persons with the letter (R) after their name ceased to hold office during the year. Alternate directors are indicated by the letter (A) after their name.

Companies placed in liquidation during the year are indicated by the letter (L) after their name.

**AHI Roofing (Malaysia) SDN BHD**
Z Bin Mat Desa ($2,400), P Binti Mohamad ($2,400), P Lamb, A Reding, P Stichbury

**AHI Roofing (Middle East) Limited**
A Reding, W Roest

**AHI Roofing Limited**
A Reding, W Roest

**AHI Roofing Pty Limited**
D Le Quesne, A Reding

**Aickin Timber Limited**
D Worley, W Roest

**Alan Milne Building Supplies Limited**
A Milne, D Worley, R de Raat (A)

**Amatek Holdings Limited**
L Box, M Farrell, D Le Quesne, W Roest

**Amatek Industries Pty Limited**
D Le Quesne, W Roest

**Amatek Investments Limited**
L Box, M Farrell, D Le Quesne, W Roest

**Amies Building Supplies Limited**
O Lyttleton, D Worley, R de Raat (A)

**Amtel Holdings Limited (L)**
M Binns, D Le Quesne

**Amtel Pty Limited**
D Le Quesne, A Reding

**Anson Building Supplies Limited**
A Anson, D Worley, R de Raat (A)

**Aramis Investments Limited**
W Roest, M Farrell

# Regulatory Disclosures

**Auckland Frame and Truss Supplies Limited**
O Lyttleton, D Worley, D Deavoll, N Letica, M Waterman

**Australian Fibre Glass Pty Limited**
D Le Quesne, A Reding

**Bandelle Pty Limited**
M Binns, L Box

**Boden Building Supplies Limited**
D Worley, P Boden, R de Raat (A)

**Bowen Building Supplies Limited**
D Worley, R de Raat (A), B Bowen (R)

**Bramley Building Supplies Limited**
D Worley, R de Raat (A)

**Builders Hardware Company Limited**
P Dolheguy, D Worley, R de Raat (A)

**Building Choices Limited**
D Close, D Worley, R de Raat (A)

**Building Products Superannuation Fund Pty Limited**
C Chick, A Hardge, S Hart, S Ryan, T Thomas, P Pickup, W Roest, L Box, J McCabe (A)

**BVP No.1 Limited (L)**
M Binns, W Roest

**BVP No.3 Limited (L)**
M Binns, W Roest

**Calder Building Supplies Limited**
P Calder, D Worley, R de Raat (A)

**Caravan Components Pty Limited**
M Binns, D Le Quesne

**Cemac (Hong Kong) Limited**
C Wing Shum, D Thomas

**Cemac (Macau) Limited**
C Wing Shum

**Cleaver Building Supplies Limited**
M Cleaver, D Worley, R de Raat (A)

**Collier Building Supplies Limited**
D Worley

**Cotter & Thomas Building Supplies Limited**
D Worley, R de Raat

**Craig Building Supplies Limited**
D Worley, R de Raat (A)

**Creeks Metal Industries Pty Limited**
D Le Quesne, A Reding

**Cullen Building Supplies Limited**
R Cullen, D Worley, R de Raat (A)

**Cullity Timber Holdings Pty Limited**
M Farrell, D Le Quesne, W Roest, J Ling, L Box (A)

**Dale King Building Supplies Limited**
D Worley, D King, R de Raat (A)

**Davis & Casey Building Supplies Limited**
T Davis, D Worley, R de Raat (A)

**Deavoll Building Supplies Limited**
D Worley, D Deavoll, R de Raat (A)

**Decra Roofing Systems, Inc.**
W Hudson, A Reding

**Delcon Holdings (No. 1) Limited**
A Reding, W Roest

**Delcon Holdings (No. 2) Limited**
A Reding, W Roest

# Regulatory Disclosures

**Delcon Holdings (No. 3) Limited**
A Reding, W Roest, G Kirk, D Haslett (R), M Wood (R)

**Delcon Holdings (No. 8) Limited**
W Roest, A Reding

**Delcon Holdings (No. 10) Limited**
M Farrell, W Roest

**Duroid Pty Limited (L)**
G Kirk, L Box

**EFA Technologies Pty Limited**
M Binns, D Le Quesne

**Engineered Timber Solutions Limited**
D Worley

**Evans Building Supplies Limited**
M Evans, D Worley, R de Raat (A)

**FDCC California Inc**
M Binns, K Kupchak, C Munkowits

**FDL No. 18 Limited**
D Worley

**FDL No. 19 Limited**
D Worley

**FDL No. 20 Limited**
D Worley

**Fegan Building Supplies Limited**
M Fegan, D Worley, R de Raat (A)

**Firth Industries Peru S.A.**
M Binns, B Denekamp, R Silva-Rodriguez

**Fletcher Building (Australia) Finance Pty Limited**
M Binns, D Le Quesne, L Box, M Hope (R)

**Fletcher Building (Australia) Pty Limited**
M Farrell, L Box, D Le Quesne, W Roest

**Fletcher Building Finance Limited**
P Baines, Dr. R Deane, H Fletcher, G McGrath, Sir D Spring, K Vautier, R Waters, R Norris (R)

**Fletcher Building Holdings Limited**
W Roest, M Farrell

**Fletcher Building Holdings USA Inc.**
W Hudson, A Reding

**Fletcher Building Netherlands Antilles B.V.**
M Farrell, T Mol, E Rakers, W Roest

**Fletcher Building Netherlands B.V.**
M Farrell, W Roest, P Ruoff, A Van De Werken ($4,698)

**Fletcher Building Nominees Limited**
J McDonald, G Niccol, G Key, M Farrell, W Roest, P Merry

**Fletcher Building Products Limited**
A Reding, W Roest

**Fletcher Building Share Schemes Limited**
P Merry, G Niccol, J McDonald

**Fletcher Challenge Building Bolivia S.A.**
M Binns, K Cowie, H Ritchie

**Fletcher Challenge Building UK Limited**
J Ollard, D Wood

**Fletcher Challenge Finance Investments Limited**
W Roest, M Farrell

**Fletcher Challenge Forest Industries Limited**
M August, J Ollard, D Wood

**Fletcher Challenge Industries S.A.**
M Binns, K Cowie, H Ritchie

# Regulatory Disclosures

**Fletcher Challenge Investments Overseas Limited**
W Roest, M Farrell

**Fletcher Challenge Investments UK Limited (L)**
D Wood, J Ollard

**Fletcher Challenge Materiais De Construcao Limitada**
D Kenderdine

**Fletcher Challenge Overseas Holdings Limited**
W Roest, M Farrell

**Fletcher Challenge Steel Products (Australia) Pty Limited (L)**
A Pearson, L Box

**Fletcher Composite Research Limited**
A Reding, W Roest

**Fletcher Concrete (Fiji) Limited**
M Binns, P Thumath, R Harper (R)

**Fletcher Concrete & Infrastructure Limited**
M Binns, W Roest

**Fletcher Construction (Malaysia) SDN BHD**
I Liew ($1,809), T Chan ($1,809)

**Fletcher Construction (Nouvelle Caledonie) Limited**
A Brown

**Fletcher Construction (Singapore) PTE Limited**
G Johnston, C Munkowits, K Lee ($1,627)

**Fletcher Construction (Solomon Islands) Limited**
A Brown, L Gray

**Fletcher Construction Australia Pty Limited**
M Binns, C Munkowits, C Wickham, K Davey, M Stone (R)

**Fletcher Construction Company (Fiji) Limited**
A Brown, L Gray, P Watts

**Fletcher Construction Company North America**
M Binns, K Kupchak, C Munkowits

**Fletcher Construction Pty Limited**
M Binns, C Munkowits, L Box

**Fletcher Distribution Limited**
W Roest, D Worley

**Fletcher Insulation (NSW) Pty Limited**
D Le Quesne, A Reding

**Fletcher Insulation (Vic) Pty Limited**
D Le Quesne, A Reding

**Fletcher Morobe Construction Pty Limited**
A Brown, L Gray, L Mathias, K Fletcher

**Fletcher Pacific Steel (Fiji) Limited**
D Hargovind ($2,400), A Pearson, A Reding, W Roest

**Fletcher Property Developments UK Limited**
M August, J Ollard, D Wood

**Fletcher Property Investments UK Limited**
M August, J Ollard, D Wood

**Fletcher Property Limited**
M Binns, W Roest

**Fletcher Residential Limited**
M Binns, W Roest

**Fletcher Resorts Limited (L)**
M Binns, W Roest

**Fletcher Steel Limited**
A Reding, W Roest

**Fletcher Wood Panels (Australia) Pty Limited**
R Linton (R), A Reding, J Ling, L Box

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# Regulatory Disclosures

**Fo Shan Cemac Building Material Company Limited**
J Shum, D Thomas

**Formica (N.Z.) Limited**
D Worley, W Roest, R Linton (R)

**FWPBT Limited**
A Reding, W Roest

**Geoff Brown Building Supplies Limited**
G Brown, D Worley, R de Raat (A)

**Graeme Joy Building Supplies Limited**
G Joy, D Worley, R de Raat (A)

**Grant McLeod Building Supplies Limited**
D Worley

**Gray Building Supplies Limited**
C Gray, D Worley, R de Raat (A)

**Hedges Building Supplies Limited**
R Hedges, D Worley, R de Raat (A)

**Hilson Building Supplies Limited**
D Worley, R de Raat (A)

**Hooper Building Supplies Limited**
G Hooper, D Worley, R de Raat (A)

**Hudson Building Supplies Limited**
D Worley, R de Raat

**Insulation Solutions Holdings Pty Limited**
D Le Quesne, A Reding

**Inventure Limited (L)**
W Roest, M Binns

**John Cockburn Building Supplies Limited**
J Cockburn, D Worley, R de Raat (A)

**Ken Jones Building Supplies Limited**
K Jones, D Worley, R de Raat (A)

**Kenna Building Supplies Limited**
L Kenna, D Worley, R de Raat (A)

**Kevin Jarvis Building Supplies Limited**
K Jarvis, D Worley, R de Raat (A)

**Key Building Supplies Limited**
D Worley, R de Raat (A)

**KH Consolidated Industries (Canberra) Pty Limited**
D Le Quesne, A Reding

**Kimura Building Supplies Limited**
D Worley, J Kimura, R de Raat (A)

**Laminex (Australia) Pty Limited**
M Farrell, D Le Quesne, W Roest, J Ling, L Box (A)

**Laminex Group (N.Z.) Limited**
D Worley, W Roest, R Linton (R)

**Laminex Group Pty Limited**
M Farrell, D Le Quesne, W Roest, J Ling, L Box (A)

**Langford-Lee Building Supplies Limited**
M Langford-Lee, D Worley, R de Raat (A)

**Laracy Building Supplies Limited**
K Laracy, D Worley, R de Raat (A)

**M Wong Building Supplies Limited**
O Lyttelton, D Worley, R de Raat (A)

**McDonald Building Supplies Limited**
I McDonald, D Worley, R de Raat (A)

**McGill Building Supplies Limited**
J McGill, D Worley, R de Raat (A)

# Regulatory Disclosures

**McLaughlan Building Supplies Limited**
K McLaughlan, D Worley, R de Raat (A)

**Mecon Hawaii Limited**
J Caldwell, D Hastert, K Kupchak

**Meleccio Enterprises Limited**
M Binns, W Roest

**Metromix Concrete Company Limited**
M Binns, P Thumath, R Harper (R)

**Mike Mattin Building Supplies Limited**
D Worley, R de Raat (A), M Mattin (R)

**Minnell Building Supplies Limited**
D Minnell, D Worley, R de Raat (A)

**Mount Timber & Hardware Limited**
W Roest, D Worley

**NCB (2006) Limited**
D Worley, G Florence, A Lanigan, R Scott

**Neil Thomson Building Supplies Limited**
D Worley, R de Raat (A)

**New Zealand Ceiling & Drywall Supplies Limited**
R de Raat, N Wallace (R)

**Nick Letica Building Supplies Limited**
N Letica, D Worley, R de Raat (A)

**Nock Building Supplies Limited**
M Nock, D Worley, R de Raat (A)

**Pacific Trade & Export Limited**
M Binns, W Roest

**Peter Flint Building Supplies Limited**
D Worley, R de Raat (A), P Flint (R)

**Placemakers Limited**
D Worley, W Roest

**Plaster Warehouse (Wellington) Limited**
S Borrell

**Raoul Holdings Limited**
M Binns, W Roest

**Read Building Supplies Limited**
D Worley, A Read, R de Raat

**Rocla Australia Pty Limited**
M Binns, D Le Quesne

**Rocla Concrete Pipes Pty Limited**
M Binns, D Le Quesne

**Rocal Drilling Pty Limited**
M Binns, D Le Quesne

**Rocal Group Superannuation Fund Pty Limited**
J Gardiner, A Hardge, M Lukban, W Roest, L Box, N Lloyd

**Rocla Industries Pty Limited**
M Binns, D Le Quesne

**Rocla Masonry Pty Limited**
M Binns, D Le Quesne

**Rocla Materials Pty Limited**
M Binns, D Le Quesne

**Rocla NSW Pty Limited**
M Binns, D Le Quesne

**Rocla Pty Limited**
M Binns, D Le Quesne

**Rocla SA Pty Limited**
M Binns, D Le Quesne

# Regulatory Disclosures

**Rocla Vic Pty Limited**
M Binns, D Le Quesne

**Rolleston Building Supplies Limited**
R Rolleston, D Worley, R de Raat (A)

**Seabar Holdings (No 16) Limited**
M Binns, W Roest

**Servicios Y Administraciones Apoquindo Limitada**
C Eyzaguirre

**Sisalation Pty Limited**
D Le Quesne, A Reding

**Southbound Building Supplies Limited**
A Rance, D Worley, R de Raat (A)

**Steven Marshall Building Supplies Limited**
S Marshall, D Worley, R de Raat (A)

**Stichbury Building Supplies Limited**
S Stichbury, D Worley, R de Raat (A)

**Stickland Building Supplies Limited**
L Stickland, D Worley, R de Raat (A)

**Stramit (Preston) Pty Limited**
D Le Quesne, A Reding

**Stramit Corporation Pty Limited**
D Le Quesne, A Reding

**Stramit Industries (SEA) Pte Limited**
A Reding, W Roest, P Dessent, D Kiew

**Stramit Pty Limited**
D Le Quesne, A Reding

**Sullivan & Armstrong Building Supplies Limited**
J Sullivan, D Worley, R de Raat (A)

**Tasman Access Floors Pty Limited**
D Le Quesne, A Reding

**Tasman Australia Pty Limited**
D Le Quesne, A Reding

**Tasman Building Products Pty Limited**
D Le Quesne, A Reding

**Tasman Insulation New Zealand Limited**
A Reding, W Roest

**Tasman Investments (Netherlands Antilles) N.V.**
E Rakers, M Farrell, T Mol ($2,476), W Roest

**Tasman Overseas Pty Limited (L)**
D Le Quesne, A Reding

**Tasman Sinkware North America, Inc.**
A Reding

**Tasman Sinkware Pty Limited**
D Le Quesne, A Reding

**TBP Group Pty Limited**
D Le Quesne, A Reding

**Ted Harper Building Supplies Limited**
E Harper, D Worley, R de Raat (A)

**Terrace Insurances Limited (L)**
M Eades ($3,000), P Wakefield, J McDonald ($3,000), M Farrell

**Terrace Insurances (PCC) Limited**
M Eades ($6,000), P Wakefield, J McDonald ($4,621), M Farrell

**Terry Mellsop Building Supplies Limited**
T Mellsop, D Worley, R de Raat (A)

**The Fletcher Construction Company Cook Islands Limited**
A Brown, L Gray

# Regulatory Disclosures

**The Fletcher Construction Company Limited**
M Binns, W Roest

**The Fletcher Organisation (Vanuatu) Limited**
A Brown, L Gray, Diract Limited, Lotim Limited

**The Fletcher Trust and Investment Company Limited**
M Binns, W Roest

**The O'Brien Group Limited**
J Ling, W Roest, M Farrell (R)

**Thomas Street Pty Limited**
D Le Quesne, M Binns

**Trade Mart Limited**
W Roest, D Worley

**Tradetmates Limited**
W Roest, D Worley

**Trevor Cockburn Building Supplies Limited**
D Worley, T Cockburn, R de Raat (A)

**Van Der Vossen Building Supplies Limited**
D Worley, R de Raat (A)

**Varoy Building Supplies Limited**
J Varoy, D Worley, R Scott, R de Raat (A)

**Ward Building Supplies Limited**
D Worley, R Ward, R de Raat (A)

**Warren Smith Building Supplies Limited**
D Worley, R de Raat (A)

**Waterman Building Supplies Limited**
M Waterman, D Worley, R de Raat (A)

**Wesfi Limited**
M Farrell, D Le Quesne, W Roest, J Ling, L Box (A)

**Wesfi Manufacturing Pty Limited**
M Farrell, D Le Quesne, W Roest, J Ling, L Box (A)

**WFI Pte Limited (L)**
M Farrell, S Herbert, L Keun, V Pannuzzo, W Roest

**Winstone Property (Hillside) Limited (L)**
M Binns, S Kendon, C Loughlin

**Winstone Wallboards Limited**
A Reding, W Roest

# Investor Information

## Annual shareholders' meeting

The Annual Shareholders' Meeting of Fletcher Building Limited will be held at the Rangitoto Ballroom, Langham Hotel, Auckland, New Zealand, at 2.00pm on Tuesday 14 November 2006.

## Dividend Reinvestment Plan

Fletcher Building shareholders (excluding those in jurisdictions where the issue of shares is not permitted by law) can participate in a Dividend Reinvestment Plan, under which they have the opportunity to reinvest their dividends in additional shares. To participate, please contact the share registry.

## On-line trading and financial information

Details on Fletcher Building, its governance policies, and its operations for the year ended 30 June 2006 can be viewed at the Fletcher Building website, at www.fletcherbuilding.com.

This website contains all news releases to the New Zealand Exchange and other financial presentations made by the company.

## Electronic communications

The New Zealand Electronic Transactions Act 2002 allows the company to distribute all shareholder materials in electronic form, where shareholders so agree. Shareholders interested in viewing the electronic version of the annual report can so do by going to the company's website, as noted above.

## Direct crediting of interest and dividends

To minimise the risk of fraud and misplacement of interest and dividend cheques shareholders and noteholders are strongly recommended to have all payments by way of direct credit to their nominated bank account. This can be done by simply giving the share registry written notice.

## Share registries

Details of the company's share registries are given in the Directory on the final page of this report.

Shareholders with enquiries about share transactions, changes of address or dividend payments should contact the share registry in the country in which their shares are registered.

## Final dividend information

The company has declared a final dividend for the year of 21 cents per share payable on 12 October 2006 with New Zealand tax credits attached. This is in addition to the interim dividend of 19 cents per share paid in April 2006.

# Investor Information

## Final Dividend Summary [1]

| NZ cents per share | NZ Residents | Australian Residents | Other Non-Residents |
|---|---|---|---|
| Dividend declared | 21.000 | 21.000 | 21.000 |
| NZ tax credits [2] | 10.343 | | |
| NZ tax credit refund | | 3.103 | 3.103 |
| NZ supplementary dividend | | 2.594 | 2.594 |
| Australian franking tax credits [3] | | 0.000 | |
| **Gross dividend for NZ tax purposes** | **31.343** | **26.697** | **26.697** |
| NZ tax (33%) | (10.343) | | |
| NZ non-resident withholding tax (15%) [4] | | (4.005) | (4.005) |
| **Net cash received after NZ tax** | **21.000** | **22.693** | **22.693** |
| Australian tax (15%) [5] | | (4.005) | |
| Reduced by credit for NZ non-resident witholding tax | | 4.005 | |
| **Net cash dividend to shareholders** | **21.000** | **22.693** | **22.693** |

NOTES:

1 This summary is of a general nature and the tax rates used and the calculations are intended for guidance only. As individual circumstances will vary, shareholders are advised to seek independent tax advice.

2 These tax credits are not received in cash but are relevant in determining the gross dividend received for NZ tax purposes. They are comprised of:

| | |
|---|---|
| dividend withholding payment credits | 3.103 |
| imputation credits | 7.240 |

3 There are no Australian franking credits attached to this dividend. Refer to dividend commentary in this announcement for the company's franking tax crediting policy.

4 NZ non-resident withholding tax is imposed at the rate of 15% on the gross dividend for NZ tax purposes.

5 This summary uses the 15% income tax rate applicable in Australia to complying superannuation funds, approved deposit funds and pooled superannuation trusts. Different tax rates will apply to other Australian shareholders, including individuals, depending on their circumstances.

# Directory

## Executive Committee (as at 1 September 2006)

| | | |
|---|---|---|
| **Jonathan Ling** | Chief Executive Officer and Managing Director | BEng (Melb); MBA (RMIT) |
| **Mark Binns** | Chief Executive, Infrastructure | LLB (Auckland) |
| **Martin Farrell** | Company Secretary and General Counsel | BCom; LLB (Otago); CA (NZ) |
| **David Worley** | Chief Executive, Laminates & Panels | BCom (Auckland); MBA (Auckland) |
| **Peter Merry** | Executive General Manager, Human Resources | BBusSci (Capetown); MBA (Capetown) |
| **Andrew Reding** | Chief Executive, Building Products | MA (Oxon); MBA (Cranfield) |
| **Bill Roest** | Chief Financial Officer | FCCA (UK); ACA (NZ) |
| **David Edwards** | Chief Executive, Distribution | |

## Registered Offices

**New Zealand**
Fletcher Building 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 Australia, Locked Bag 7013, Chatswood DC2067, NSW 2067, Australia
Level 5, Tower A, Zenith Centre, 821 Pacific Highway, Chatswood, NSW 2067, Australia
Tel: +61 2 9928 3532, ARBN 096 046 936

## Shareholder Enquiries

Shareholders with enquiries about share transactions or changes of address should contact the Share Registrar in the country in which their shares are registered.

# Directory

## Registries

**New Zealand**

Computershare Investor Services Limited, Private Bag 92 119, Auckland 1142, New Zealand
Level 2, 159 Hurstmere Road, Takapuna, North Shore City 0622, New Zealand
Tel: +64 9 488 8777, Fax: +64 9 488-8787, Email: enquiry@computershare.co.nz

**Australia**

Computershare Investor Services Pty Limited, GPO Box 7045, Sydney, NSW2001, Australia
Level 3, 60 Carrington Street, Sydney, NSW 2000, Australia
Tel: 1800 501 366 (within Australia), Tel: +61 3 9415 4083 (outside Australia), Fax: +61 2 8234 5050

## Trustee for capital noteholders

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

## Other investor enquiries

Fletcher Building 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