ANNUAL REPORT

Fletcher Building Finance Limited

2007

FletcherBuilding

Contents

This report is dated 31 August 2007 and is signed on behalf of the Board of Fletcher Building Finance Limited by:

Roderick Deane *Chairman of Directors*

Jonathan Ling *Managing Director*

Letter from the Chairman

I am pleased to present the annual report of Fletcher Building Finance Limited for the year ended 30 June 2007.

Fletcher Building Finance is a wholly owned subsidiary of Fletcher Building Limited (Fletcher Building). It was established primarily to facilitate the funding for the Laminex acquisition by Fletcher Building in 2002, but has since extended to a wider role as a financing subsidiary for the group. The contents of this annual report should be read in conjunction with the Fletcher Building annual review for 2007, a copy of which has previously been sent to you.

The terms of issue for the Fletcher Building Finance capital notes provide that they are guaranteed on an unsecured subordinated basis and rank pari passu (equally) with other capital notes issued by Fletcher Building. To ensure that this equal ranking is retained, the company does not seek to maintain significant shareholders' funds over time, nor to be in deficit on shareholders' funds. The tax benefit confirmed late in the financial year, as noted below, has affected the year-end position in this regard. The results of the company should be considered against this background.

Results for the period

Net earnings after tax for the year to 30 June 2007 were inflated by a significant non-recurring item – a $70 million tax benefit confirmed after the conclusion of an audit review by the New Zealand Inland Revenue Department into the company's treatment of certain memorandum tax accounts maintained in respect of foreign sourced earnings.

The tax benefit had the effect of increasing earnings to $75.5 million (2006: $3.7 million). Earnings before taxation were $7.9 million (2006: $8.6 million). Also reflecting the impact of the tax benefit, shareholders' funds were $103.8 million at 30 June 2007 (2006: $31.3 million).

Business activities

Fletcher Building Finance has issued capital notes and also borrowed funds pursuant to the banking facilities of Fletcher Building. These facilities are fully guaranteed by Fletcher Building. Funds borrowed, including those raised by the issue of the capital notes, have been lent on interest-bearing terms to other Fletcher Building group companies. The interest payments made to the company give rise to tax credits that are available to the shareholders of Fletcher Building and are distributed by way of a dividend to Fletcher Building. The dividend paid in March 2007 was $57 million (2006: $73 million).

To maintain the company's solvency ratio upon the payment of the dividend, Fletcher Building contributed an additional $55 million of equity during the financial year (2006: $70 million). The company maintains a foreign currency hedge transaction with Fletcher Building to minimise currency impacts on its earnings and financial position.

Corporate governance

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

- Terms of appointment of directors.
- Terms of reference of the chairman, directors and management.
- Code of conduct.
- Charters for audit, remuneration and nomination committees of the board.
- Processes for evaluating the independent status and performance of directors.

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

Specific governance initiatives instituted by the company include requirements that:

- The directors of the company will be the directors of Fletcher Building, with no further remuneration payable.
- The chairman, chief executive, chief financial officer and company secretary of Fletcher Building will hold the equivalent roles in the company.
- The audit committee will have the same constituency, chairmanship and charter as Fletcher Building's committee.

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

The financial position of the company is dependent on that of Fletcher Building, which has again performed very well in the June 2007 year. Comprehensive information on the operations and performance of Fletcher Building is available on its website, (www.fletcherbuilding.com), and I recommend that you take the opportunity to review it.

Roderick Deane *Chairman of Directors*

Statements of Earnings and Movements in Equity ~ *For the year ended 30 June 2007*

Earnings Statement

	Notes	Year Ended June 2007 NZ$	Year Ended June 2006 NZ$
Investment income	2	**109,909,880**	106,663,737
Operating expenses		**(574,307)**	(494,677)
Operating earnings		**109,335,573**	106,169,060
Funding costs	3	**(101,387,421)**	(97,527,703)
Earnings before taxation		**7,948,152**	8,641,357
Taxation benefit/(expense)	4	**67,527,334**	(4,937,632)
Net earnings		**75,475,486**	3,703,725

Statement of Movements in Equity

	Notes	Year Ended June 2007 NZ$	Year Ended June 2006 NZ$
Total equity			
At the beginning of the year		**31,318,144**	29,565,471
Net earnings for the year	6	**75,475,486**	3,703,725
Movement in currency translation reserve	6	**(976,070)**	1,048,948
Total recognised revenues and expenses for the year		**74,499,416**	4,752,673
Increase in share capital	5	**55,000,000**	70,000,000
Dividend paid to Fletcher Building Limited	6	**(57,000,000)**	(73,000,000)
Total equity		**103,817,560**	31,318,144

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

Balance Sheet ~ *As at 30 June 2007*

	Notes	*June 2007 NZ$*	*June 2006 NZ$*
Assets			
Current assets:			
Cash and liquid deposits		**1,544**	2,417
Debtors		**8,370**	12,194
Provision for current taxation	*8*		97,196,696
Amounts owing by related companies	*13*	**538,605,573**	
Total current assets		**538,615,487**	97,211,307
Non-current assets:			
Amounts owing by related companies	*13*	**1,034,327,854**	1,490,173,825
Total non-current assets		**1,034,327,854**	1,490,173,825
Total assets		**1,572,943,341**	1,587,385,132
Liabilities			
Current liabilities:			
Accrued interest		**5,667,295**	5,765,065
Creditors		**61,121**	95,447
Provision for current taxation	*8*	**41,788,763**	
Capital notes	*9*	**112,670,000**	
Amounts owing to related companies	*13*		1,088,056,982
Total current liabilities		**160,187,179**	1,093,917,494
Non-current liabilities:			
Capital notes	*9*	**36,467,683**	148,884,687
Term debt	*10*	**281,969,380**	313,264,807
Amounts owing to related companies	*13*	**990,501,539**	
Total non-current liabilities		**1,308,938,602**	462,149,494
Total liabilities		**1,469,125,781**	1,556,066,988
Equity			
Reported capital	*5*	**205,000,000**	150,000,000
Reserves	*7*	**(101,182,440)**	(118,681,856)
Total equity		**103,817,560**	31,318,144
Total liabilities and equity		**1,572,943,341**	1,587,385,132

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

On behalf of the Board, 31 August 2007

Roderick Deane *Chairman of Directors* **Jonathan Ling** *Managing Director*

Statement of Cashflows ~ *For the year ended 30 June 2007*

	Year Ended June 2007 NZ$	*Year Ended June 2006 NZ$*
Cashflow from operating activities:		
Revenue received	**109,909,880**	108,103,910
Payments to suppliers, employees and other	**(642,846)**	(496,716)
Financial instruments	**68,910,051**	(74,982,470)
Interest paid	**(101,130,689)**	(98,867,247)
Taxes paid	**(30,053,409)**	(34,023,178)
Net cash from operating activities	**46,992,987**	(100,265,701)
Cashflow from financing activities:		
Advances from/(to) related companies	**(44,993,645)**	103,267,326
Issue of shares	**55,000,000**	70,000,000
Dividend paid to Fletcher Building Limited	**(57,000,000)**	(73,000,000)
Net cash from financing activities	**(46,993,645)**	100,267,326
Net movement in cash held	**(658)**	1,625
Add opening cash and liquid deposits	**2,417**	571
Effect of exchange rate changes on net cash	**(215)**	221
Closing cash and liquid deposits	**1,544**	2,417

Reconciliation of Net Earnings to Net Cash from Operating Activities ~ *For the year ended 30 June 2007*

	Year Ended June 2007 NZ$	*Year Ended June 2006 NZ$*
Cash was received from net earnings	**75,475,486**	3,703,725
Adjustment for items not involving cash:		
Taxation	**(97,580,743)**	(29,085,546)
Prepayments	**256,732**	1,440,173
Trade creditors and accruals	**(68,539)**	(1,341,583)
Cash was (paid)/received on financial instruments	**68,910,051**	(74,982,470)
Net cash from operating activities	**46,992,987**	(100,265,701)

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

Basis of presentation

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

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).

Estimates

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

Valuation of assets

Debtors

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

Cash

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

Foreign currency

Translation of the financial statements of foreign operations

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

Exchange differences

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

Non-monetary assets 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.

Valuation of liabilities

Derivative financial instruments

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

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

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

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

Derivative financial instruments are initially recorded at fair value and are then revalued to fair value at each balance sheet date. The gain or loss on revaluation is recorded either in earnings or equity depending on whether the instruments qualify for hedge accounting and the nature of the item being hedged. For a derivative instrument to be classified and accounted for as a hedge, it must be highly correlated with, and effective as a hedge of the underlying risk being managed and this relationship must be documented from inception.

Fair value hedges

Where a derivative financial instrument is designated as a hedge of a recognised asset or liability, or a firm commitment, any gain or loss is recognized 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 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.

Taxation

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

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

Borrowings

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

Creditors

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

Provisions

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

Equity

Share capital

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

Income determination

Investment revenue

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

Funding costs

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

Notes to the Financial Statements

1 Changes in accounting policies

There have been no changes in accounting policy in the year ended 30 June 2007, however certain comparatives were restated to conform with the current year's presentation.

	Year Ended June 2007 NZ$	*Year Ended June 2006 NZ$*
2 Investment income		
Investment income includes interest received from related companies:		
Fletcher Building Limited	**17,196,072**	16,031,899
Fletcher Building (Australia) Pty Limited	**92,713,808**	90,631,838
	109,909,880	106,663,737
3 Funding costs		
Interest payable on:		
Term debt	**20,094,360**	17,952,684
Capital notes interest	**12,993,326**	12,993,325
Interest paid to related companies:		
Fletcher Building (Australia) Finance Pty Limited	**26,934,999**	24,200,378
Fletcher Challenge Investments Overseas Limited	**41,065,096**	42,006,145
Income from short term deposits	**(572,341)**	(575,748)
	100,515,440	96,576,784
Plus bank fees, share registry and issue expenses	**871,981**	950,919
	101,387,421	97,527,703
4 Taxation expense		
Earnings before taxation:		
New Zealand	**3,902,364**	2,662,395
Overseas	**4,045,788**	5,978,962
	7,948,152	8,641,357
Taxation at 33 cents per dollar	**(2,622,890)**	(2,851,648)
Adjusted for:		
Tax rate adjustment	**121,374**	179,369
Tax in respect of prior years	**(35,517)**	69,221
Tax benefit arising from the election of the branch equivalent tax account	**70,000,000**	
Foreign dividend withholding tax payable	**(29,332,140)**	(30,393,431)
Non assessable income	**29,396,507**	28,058,857
	67,527,334	(4,937,632)
Current taxation:		
New Zealand	**68,776,587**	(3,213,165)
Overseas	**(1,249,253)**	(1,724,467)
	67,527,334	(4,937,632)
Shareholder tax credits		
Dividend withholding payment credit account:		
Dividend withholding payment credits at the beginning of the year		1,520,940
Dividend withholding payment credits received from taxation payments	**27,051,976**	33,714,434
Dividend withholding payment credits attached to dividends paid	**(27,051,976)**	(35,235,374)

Notes to the Financial Statements

5 Capital

	Year Ended June 2007 NZ$	*Year Ended June 2006 NZ$*
Reported capital:		
Reported capital at the beginning of the year	**150,000,000**	80,000,000
Issue of shares	**55,000,000**	70,000,000
	205,000,000	150,000,000

	Year Ended June 2007	*Year Ended June 2006*
Number of shares:		
Number of shares at the beginning of the year	**150,000,000**	80,000,000
Issue of shares	**55,000,000**	70,000,000
	205,000,000	150,000,000

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

6 Reserve movements

	Year Ended June 2007 NZ$	*Year Ended June 2006 NZ$*
Revenue reserve		
Revenue reserve at the beginning of the year	**(122,693,426)**	(53,397,151)
Net earnings	**75,475,486**	3,703,725
Dividend paid to Fletcher Building Limited	**(57,000,000)**	(73,000,000)
	(104,217,940)	(122,693,426)
Net currency translation reserve		
Net currency translation reserve at the beginning of the year	**4,011,570**	2,962,622
Net currency translations	**(976,070)**	1,048,948
	3,035,500	4,011,570

7 Reserve balances

	June 2007 NZ$	*June 2006 NZ$*
Reserves comprise:		
Revenue reserve	**(104,217,940)**	(122,693,426)
Net currency translation reserve	**3,035,500**	4,011,570
	(101,182,440)	(118,681,856)

8 Provision for current taxation

Opening provision for taxation	**97,196,696**	8,768,329
Currency translation	**121,206**	(173,752)
Taxation in the earnings statement	**67,527,334**	(4,937,632)
Taxation in reserves	**(69,172,088)**	75,351,873
Intercompany payment from Fletcher Building Holdings Limited	**(167,515,320)**	(15,835,300)
Net taxation payments	**30,053,409**	34,023,178
	(41,788,763)	97,196,696

9 Capital notes

Capital notes	*Coupon*	*Election date*	*June 2007 NZ$*	*June 2006 NZ$*
Series 2008	8.60%	15 March 2008	**112,670,000**	112,670,000
Series 2010	8.85%	15 March 2010	**37,330,000**	37,330,000
Prepaid expenses			**(862,317)**	(1,115,313)
			149,137,683	148,884,687

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

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

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

If the principal amount of the capital notes were to be converted to shares, 12.4 million (June 2006 16.7 million) Fletcher Building Limited shares would be issued at the share price as at 30 June 2007, of $12.35 (June 2006 $9.15).

10 Term debt

Loans subject to the negative pledge

The company borrows funds based on group covenants and a group negative pledge and guarantee arrangement. The principal borrowing covenants relate to gearing, interest cover and minimum net tangible assets and at 30 June 2007, 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.

	June 2007 NZ$	*June 2006 NZ$*
Floating loans	**281,969,380**	313,264,807
	281,969,380	313,264,807

Summary of repayment terms and interest rates by repayment period

	June 2007 NZ$	*June 2007 Int. Rate %*	*June 2006 NZ$*	*June 2006 Int. Rate %*
Due for repayment:				
within one year				
within two years				
within three years	**237,969,380**	**6.90**	264,317,181	6.50
within four years				
within five years	**44,000,000**	**6.90**	48,947,626	6.58
after five years				
	281,969,380	**6.90**	313,264,807	6.51

Credit rating

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

11 Financial instruments

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

Management policies

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

Currency balance sheet risk

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

Currency trade risk

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

Interest rate risk

The company is a wholly owned subsidiary of Fletcher Building Limited and does not have an independent policy regarding interest rate risk but complies with the group policy.

It is group policy to manage the fixed interest rate ratio on its debt and capital notes portfolio within the range of 40 to 70 percent. The position in this range is managed depending upon underlying interest rate exposures and economic conditions.

Credit risk and liquidity risk

The company is a wholly owned subsidiary of Fletcher Building Limited and does not have an independent position regarding credit risk and liquidity risk. The company only has credit risk exposure to the Fletcher Building group and has no external credit risk exposure. Liquidity risk is the risk that the company will encounter difficulty in meeting its financial commitments as they fall due. The company manages its liquidity risk by having a spread of maturity dates of the company's debt facilities. Furthermore at 30 June 2007, the Fletcher Building group had $1,251 million of committed bank facilities of which $618 million was undrawn (June 2006 $1,267 million; $577 million).

Outstanding derivative transactions

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

	June 2007 NZ$	*June 2006 NZ$*
Principal or contract amount:		
Currency forward exchange contracts		
To pay	**620,793,457**	689,692,533
To receive	**(620,801,527)**	(689,703,508)
Gain accrued at year end included within debtors	**(8,070)**	(10,975)

The cash settlement amounts of these instruments, if they had settled on 30 June 2007, approximates the principal or contract amount.

11 Financial instruments continued

Interest rate repricing

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

	June 2007 NZ$	*June 2007 Int. Rate %*	*June 2006 NZ$*	*June 2006 Int. Rate %*
Total portfolio				
Interest rate repriced: (including average interest rate)				
within one year	**394,639,380**	**7.40**	313,264,807	6.51
within two years			112,670,000	8.60
within three years	**37,330,000**	**8.85**		
within four years			37,330,000	8.85
within five years				
after five years				
	431,969,380	**7.52**	463,264,807	7.21

Asset class

June 2007	*Interest Rate %*	*Floating NZ$*	*Fixed up to One Year NZ$*	*Fixed One to Five Years NZ$*	*Fixed over Five Years NZ$*	*Total NZ$*
Bank loans – Australian dollars	**6.90**	**281,969,380**				**281,969,380**
Term debt	**6.90**	**281,969,380**				**281,969,380**
Amounts owing to related companies	**7.83**	**990,501,539**				**990,501,539**
Amounts owing by related companies	**8.27**	**(311,413,227)**	**(1,261,520,200)**			**(1,572,933,427)**
Cash and liquid deposits	**5.00**	**(1,544)**				**(1,544)**
Capital notes	**8.66**		**112,670,000**	**37,330,000**		**150,000,000**
		961,056,148	**(1,148,850,200)**	**37,330,000**		**(150,464,052)**

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

Notes to the Financial Statements

11 Financial instruments continued

Fair values

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

	June 2007 Carrying value NZ$	*June 2007 Fair value NZ$*	*June 2006 Carrying value NZ$*	*June 2006 Fair value NZ$*
Debtors	**8,370**	**8,370**	12,194	12,194
Accrued interest	**(5,667,295)**	**(5,667,295)**	(5,765,065)	(5,765,065)
Creditors	**(61,121)**	**(61,121)**	(95,447)	(95,447)
Cash and liquid deposits	**1,544**	**1,544**	2,417	2,417
Capital notes	**(150,000,000)**	**(149,388,476)**	(150,000,000)	(151,954,088)
Bank loans	**281,969,380**	**281,969,380**	(313,264,807)	(313,264,807)
Amounts owing to related companies	**(990,501,539)**	**(990,501,539)**	(1,088,056,982)	(1,088,056,982)
Amounts owing by related companies	**1,572,933,427**	**1,572,933,427**	1,490,173,825	1,490,173,825

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

12 Contingent liabilities and capital commitments

There were no contingent liabilities or capital commitments as at 30 June 2007 (June 2006 nil).

The Fletcher Building group borrows funds based on covenants and a negative pledge and guarantee arrangement. The principal borrowing covenants relate to gearing, interest cover and minimum net tangible assets and at 30 June 2007, the Fletcher Building group was in compliance with all its covenants. The negative pledge ensures that external senior indebtedness ranks equally in all respects and includes the covenant that security can be given only in very limited circumstances. The guarantee states that Fletcher Building and certain of its subsidiaries, including Fletcher Building Finance Limited, guarantee the debt of the group that has the benefit of the negative pledge and guarantee.

As at 30 June 2007 the guaranteeing group had debt subject to the negative pledge and guarantee and covenants of $566 million (June 2006 $628 million).

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

	June 2007 NZ$	June 2006 NZ$

13 Related party transactions

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

	June 2007 NZ$	June 2006 NZ$
Term receivable owing from related companies		
Fletcher Building Limited [1]	**296,478,143**	77,051,427
Fletcher Building (Australia) Pty Limited [2]	**1,261,520,200**	1,401,534,741
Fletcher Building (Australia) Pty Limited [3]	**14,935,084**	11,587,657
	1,572,933,427	1,490,173,825
Term payable owing to related companies		
Fletcher Challenge Investments Overseas Limited [4]	**583,931,173**	665,073,431
Fletcher Building (Australia) Finance Pty Limited [4]	**406,570,366**	422,983,551
	990,501,539	1,088,056,982

[1] *This unsecured advance represents long term funding even though it is for no fixed term and bears interest at 9.75% (June 2006 9.75%).*

[2] *This advance represents 1,145,334,190 (June 2006 1,145,334,190) fixed rate debentures of Australian $1.00 each and each tranche has a five year term from the date of issue, but may be repaid earlier by the borrower. The debentures must be repaid by; 19 December 2007 489,000,000, 30 September 2008 115,000,000 and 1 March 2010 541,334,190. The advance is secured by a guarantee provided by Fletcher Building Holdings Limited. As at 30 June 2007 the interest rate was 7.935% (June 2006 6.805%).*

[3] *This unsecured advance represents long term funding even though it is for no fixed term and bears interest at 7.4675% (June 2006 7.0%).*

[4] *These advances represent long term funding. They are unsecured and for a fixed term to 31 March 2012. As at 30 June 2007 the interest rate was 7.83% (June 2006 6.42%).*

During the year the company received an amount of $68,910,051 (30 June 2006 paid $74,982,470) from Fletcher Building Limited in respect of financial instruments.

14 Segmental information

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

Geographical segments

	New Zealand NZ$ June 2007	Australia NZ$ June 2007	Total NZ$ June 2007
Investment income	**17,196,072**	**92,713,808**	**109,909,880**
Earnings before taxation	**3,902,364**	**4,045,788**	**7,948,152**
Total assets	**296,486,214**	**1,276,457,127**	**1,572,943,341**

	June 2006	June 2006	June 2006
Investment income	16,031,899	90,631,838	106,663,737
Earnings before taxation	2,662,395	5,978,962	8,641,357
Total assets	176,183,278	1,411,201,854	1,587,385,132

Audit Report

KPMG

To the shareholder of Fletcher Building Finance Limited

We have audited the financial statements on pages 2 to 13. The financial statements provide information about the past financial performance of the company and its financial position as at 30 June 2007. This information is stated in accordance with the accounting policies as set out on pages 5 to 6.

Directors' responsibilities
The Directors are responsible for the preparation of financial statements which give a true and fair view of the financial position of the company as at 30 June 2007 and the results of its operations and cash flows for the year ended on that date.

Auditors' responsibilities
It is our responsibility to express an independent opinion on the financial statements presented by the Directors and report our opinion to you.

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

- the significant estimates and judgments made by the Directors in the preparation of the financial statements;
- whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

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

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

Unqualified opinion
We have obtained all the information and explanations we have required.

In our opinion:

- proper accounting records have been kept by the company as far as appears from our examination of those records;
- the financial statements on pages 2 to 13:
- comply with New Zealand generally accepted accounting practice;
- give a true and fair view of the financial position of the company as at 30 June 2007 and the results of its operations and cash flows for the year ended on that date.

Our audit was completed on 8 August 2007 and our unqualified opinion is expressed as at that date.

KPMG Auckland, New Zealand

Noteholder Information

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

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

Other investor enquiries

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

Interest payment dates

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

Quotation and transfers

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

Fletcher Building website

Details on Fletcher Building and its operations for the year ended 30 June 2007 can be viewed at the Fletcher Building website, at www.fletcherbuilding.com.

This website contains all news releases to the New Zealand Exchange and financial presentations made by Fletcher Building.

Other information

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

a) that the company send copies of the annual and half-yearly reports of Fletcher Building (with financial information relating to the Fletcher Building Group), or notice complying with Section 209(3) of the Companies Act 1993, to its noteholders,

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

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

Directory

Directors

Roderick S Deane	Chairman
Paul E A Baines	Chair of the Audit Committee
Hugh A Fletcher	Member of the Audit Committee
Jonathan P Ling	
Geoffrey J McGrath	
Sir Dryden Spring	
Kerrin M Vautier	Member of the Audit Committee
Ralph G Waters	

Management

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

Registered Offices

New Zealand

Fletcher Building Finance Limited, Private Bag 92 114, Auckland 1142, New Zealand
Fletcher House, 810 Great South Road, Penrose, Auckland 1061, New Zealand
Tel: +64 9 525 9000

Australia

Fletcher Building Finance Limited, Locked Bag 7013, Chatswood DC, NSW 2067, Australia
Level 5, Tower A, Zenith Centre, 821 Pacific Highway, Chatswood, NSW 2067, Australia
Tel: +61 2 9928 3532, ARBN 102 568 178

Trustee

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

The Trustee is: Perpetual Trust Limited, PO Box 3376, Auckland 1140, New Zealand
Level 12, AMP Centre, 29 Custom Street West, Auckland 1010, New Zealand
Tel: +64 9 366 3290