FletcherBuilding

ANNUAL REPORT 2008

FLETCHER BUILDING FINANCE LIMITED

FletcherBuilding

2008 ANNUAL REPORT
FLETCHER BUILDING FINANCE LIMITED

< >

LETTER FROM THE CHAIRMAN

I am pleased to present the annual report of Fletcher Building Finance Limited for the year ended 30 June 2008.

Fletcher Building Finance is a wholly owned subsidiary of Fletcher Building Limited (Fletcher Building). The contents of this annual report should be read in conjunction with the Fletcher Building annual review for 2008, a copy of which has previously been sent to you. This annual report should also be read in conjunction with the Fletcher Building annual report, a copy of which may be viewed at www.fletcherbuilding.co.nz/corporate/resultsreports.aspx

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 results of the company should be considered against this background.

Results for the period

Net earnings after tax for the year to 30 June 2008 were $4.0 million (2007: $75.5 million). The result for last year included a $70 million tax benefit.

Following the payment of a dividend of $31.2 million to Fletcher Building during the year, shareholders' funds declined to $76.6 million from $103.8 million at 30 June 2007.

Business activities

Fletcher Building Finance has issued capital notes and those funds 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 Limited.

The company previously maintained a foreign currency hedge transaction with Fletcher Building to minimise currency impacts on its earnings and financial position. However, this has been cancelled as it was no longer required.

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.

FletcherBuilding

2008 ANNUAL REPORT
FLETCHER BUILDING FINANCE LIMITED

LETTER FROM THE CHAIRMAN

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, John Judge, a director of Fletcher Building, joined the board of Fletcher Building Finance on 9 June 2008.

The financial position of the company is dependent on that of Fletcher Building, which has again performed well in the June 2008 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

FletcherBuilding

2008 ANNUAL REPORT
FLETCHER BUILDING
FINANCE LIMITED

< >

STATEMENTS OF EARNINGS AND MOVEMENTS IN EQUITY

For the year ended 30 June 2008

Earnings statement

	Notes	Fletcher Building Finance Year ended June 2008 NZ$	Fletcher Building Finance Year ended June 2007 NZ$
Investment income	2	**56,377,959**	109,909,880
Operating expenses		**(201,967)**	(574,307)
Operating earnings		**56,175,992**	109,335,573
Funding costs	3	**(43,461,591)**	(101,387,421)
Earnings before taxation		**12,714,401**	7,948,152
Taxation benefit/(expense)	4	**(8,682,795)**	67,527,334
Net earnings		**4,031,606**	75,475,486

Statement of movements in equity

	Notes	Year ended June 2008 NZ$	Year ended June 2007 NZ$
Total equity			
At the beginning of the year		**103,817,560**	31,318,144
Net earnings for the year	6	**4,031,606**	75,475,486
Movement in currency translation reserve	6	**(29,601)**	(976,070)
Total recognised income and expenses for the year		**4,002,005**	74,499,416
Increase in share capital	5		55,000,000
Dividend paid to Fletcher Building Limited	6	**(31,200,000)**	(57,000,000)
Total equity		**76,619,565**	103,817,560

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

FletcherBuilding

2008 ANNUAL REPORT
FLETCHER BUILDING FINANCE LIMITED

< >

BALANCE SHEET

As at 30 June 2008

		Fletcher Building Finance	
	Notes	June 2008 NZ$	June 2007 NZ$
Assets			
Current assets:			
Cash and liquid deposits		**896**	1,544
Debtors		**249,386**	8,370
Provision for current taxation	8	**41,775,227**	
Amounts owing by related companies	13		538,605,573
Total current assets		**42,025,509**	538,615,487
Non-current assets:			
Amounts owing by related companies	13	**177,832,544**	1,034,327,854
Total non-current assets		**177,832,544**	1,034,327,854
Total assets		**219,858,053**	1,572,943,341

FletcherBuilding

2008 ANNUAL REPORT
FLETCHER BUILDING FINANCE LIMITED

BALANCE SHEET

As at 30 June 2008

	Notes	June 2008 NZ$	June 2007 NZ$
Liabilities			
Current liabilities:			
Accrued interest		**3,722,485**	5,667,295
Creditors			61,121
Provision for current taxation	8		41,788,763
Capital notes	9		112,670,000
Total current liabilities		**3,722,485**	160,187,179
Non-current liabilities:			
Capital notes	9	**139,516,003**	36,467,683
Term debt	10		281,969,380
Amounts owing to related companies	13		990,501,539
Total non-current liabilities		**139,516,003**	1,308,938,602
Total liabilities		**143,238,488**	1,469,125,781
Equity			
Reported capital	5	**205,000,000**	205,000,000
Reserves	7	**(128,380,435)**	(101,182,440)
Total equity		**76,619,565**	103,817,560
Total liabilities and equity		**219,858,053**	1,572,943,341

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

On behalf of the Board, 13 August 2008

Roderick Deane
Chairman of Directors

Jonathan Ling
Managing Director

FletcherBuilding

2008 ANNUAL REPORT
FLETCHER BUILDING FINANCE LIMITED

< >

STATEMENT OF CASHFLOWS

For the year ended 30 June 2008

	Fletcher Building Finance	
	Year ended June 2008 NZ$	Year ended June 2007 NZ$
Cashflow from operating activities:		
Revenue received	**56,377,959**	109,909,880
Payments to suppliers, employees and other	**(266,664)**	(642,846)
Financial instruments	**(37,697,326)**	68,910,051
Interest paid	**(45,551,840)**	(101,130,689)
Taxes paid	**(15,678,515)**	(30,053,409)
Net cash from operating activities	**(42,816,386)**	46,992,987
Cashflow from financing activities:		
Advances from/(to) related companies	**380,268,739**	(44,993,645)
Purchase of capital notes	**(7,780,500)**	
Net debt drawdowns/(settlements)	**(298,472,659)**	
Issue of shares		55,000,000
Dividend paid to Fletcher Building Limited	**(31,200,000)**	(57,000,000)
Net cash from financing activities	**42,815,580**	(46,993,645)
Net movement in cash held	**(806)**	(658)
Add opening cash and liquid deposits	**1,544**	2,417
Effect of exchange rate changes on net cash	**158**	(215)
Closing cash and liquid deposits	**896**	1,544

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

FletcherBuilding

2008 ANNUAL REPORT
FLETCHER BUILDING
FINANCE LIMITED

RECONCILIATION OF NET EARNINGS TO NET CASH FROM OPERATING ACTIVITIES

For the year ended 30 June 2008

	Fletcher Building Finance	
	Year ended June 2008 NZ$	Year ended June 2007 NZ$
Cash was received from net earnings	**4,031,606**	75,475,486
Adjustment for items not involving cash:		
Taxation	**(6,995,720)**	(97,580,743)
Prepayments	**(2,090,249)**	256,732
Trade creditors and accruals	**(64,697)**	(68,539)
Cash was (paid)/received on financial instruments	**(37,697,326)**	68,910,051
Net cash from operating activities	**(42,816,386)**	46,992,987

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

FletcherBuilding

STATEMENT OF ACCOUNTING POLICIES

For the year ended 30 June 2008

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 oriented 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 Generally Accepted Accounting Practice in New Zealand which is the New Zealand equivalent to 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. For further information on areas of estimation and judgement, refer to the notes to the financial statements.

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.

FletcherBuilding

< >

STATEMENT OF ACCOUNTING POLICIES

For the year ended 30 June 2008

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.

FletcherBuilding

2008 ANNUAL REPORT
FLETCHER BUILDING FINANCE LIMITED

STATEMENT OF ACCOUNTING POLICIES

For the year ended 30 June 2008

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 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 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.

< >

FletcherBuilding

2008 ANNUAL REPORT
FLETCHER BUILDING FINANCE LIMITED

STATEMENT OF ACCOUNTING POLICIES

For the year ended 30 June 2008

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 obligation.

Intercompany guarantees

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.

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.

FletcherBuilding

2008 ANNUAL REPORT
FLETCHER BUILDING FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1 **Changes in accounting policies**

During the year ended 30 June 2008, the company adopted NZ IFRS 7 Financial Instruments: Disclosures and Amendment to NZ IAS 1 Capital Disclosures. This has not had a material impact on the company's results. The International Accounting Standards Board has issued a number of other standards, amendments and interpretations which are not yet effective. The company has not yet applied these in preparing these financial statements. Although the application of these standards, amendments and interpretations would require further disclosures, they are not expected to have a material impact on the company's results.

There have been no other changes in accounting policy in the year ended 30 June 2008, however certain comparatives were restated to conform with the current year's presentation.

	Year ended June 2008 NZ$	Year ended June 2007 NZ$
2 **Investment income**		
Investment income includes interest received from related companies:		
Fletcher Building Limited	**24,238,106**	17,196,072
Fletcher Building (Australia) Pty Limited	**32,139,853**	92,713,808
	56,377,959	109,909,880

FletcherBuilding

2008 ANNUAL REPORT
FLETCHER BUILDING FINANCE LIMITED

< >

NOTES TO THE FINANCIAL STATEMENTS
continued

		Year ended June 2008 NZ$	Year ended June 2007 NZ$
3	**Funding costs**		
	Interest payable on:		
	Term debt	**4,544,367**	20,094,360
	Capital notes interest	**11,619,932**	12,993,326
	Interest paid to related companies:		
	Fletcher Building (Australia) Finance Pty Limited	**16,056,359**	26,934,999
	Fletcher Challenge Investments Overseas Limited	**10,534,692**	41,065,096
	Income from short term deposits	**(131)**	(572,341)
		42,755,219	100,515,440
	Plus bank fees, share registry and issue expenses	**706,372**	871,981
		43,461,591	101,387,421

FletcherBuilding

2008 ANNUAL REPORT
FLETCHER BUILDING FINANCE LIMITED

< >

NOTES TO THE FINANCIAL STATEMENTS

continued

		Year ended June 2008 NZ$	Year ended June 2007 NZ$
4	**Taxation expense**		
	Earnings before taxation:		
	New Zealand	**11,911,802**	3,902,364
	Overseas	**802,599**	4,045,788
		12,714,401	7,948,152
	Taxation at 33 cents per dollar	**(4,195,752)**	(2,622,890)
	Adjusted for:		
	Tax rate adjustment	**24,921**	121,374
	Tax in respect of prior years	**653,215**	(35,517)
	Tax benefit arising from the election of the branch equivalent tax account		70,000,000
	Foreign dividend withholding tax payable	**(15,338,045)**	(29,332,140)
	Non-assessable income	**10,172,866**	29,396,507
		(8,682,795)	67,527,334
	Current taxation:		
	New Zealand	**(8,953,412)**	68,776,587
	Overseas	**270,617**	(1,249,253)
		(8,682,795)	67,527,334
	Shareholder tax credits		
	Dividend withholding payment credit account:		
	Dividend withholding payment credits at the beginning of the year		
	Dividend withholding payment credits received from taxation payments	**15,338,109**	27,051,976
	Dividend withholding payment credits attached to dividends paid	**(15,338,109)**	(27,051,976)

FletcherBuilding

< >

NOTES TO THE FINANCIAL STATEMENTS
continued

		Year ended June 2008 NZ$	Year ended June 2007 NZ$
5	**Capital**		
	Reported capital:		
	Reported capital at the beginning of the year	**205,000,000**	150,000,000
	Issue of shares		55,000,000
		205,000,000	205,000,000
		Year ended June 2008	Year ended June 2007
	Number of shares:		
	Number of shares at the beginning of the year	**205,000,000**	150,000,000
	Issue of shares		55,000,000
		205,000,000	205,000,000
	All ordinary shares carry equal rights in respect of voting, dividend payments and distribution upon winding up.		

FletcherBuilding

2008 ANNUAL REPORT
FLETCHER BUILDING
FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS
continued

		Year ended June 2008 NZ$	Year ended June 2007 NZ$
6	**Reserve movements** **Revenue reserve**		
	Revenue reserve at the beginning of the year	**(104,217,940)**	(122,693,426)
	Net earnings	**4,031,606**	75,475,486
	Dividend paid to Fletcher Building Limited	**(31,200,000)**	(57,000,000)
		(131,386,334)	(104,217,940)
	Net currency translation reserve		
	Net currency translation reserve at the beginning of the year	**3,035,500**	4,011,570
	Net currency translations	**(29,601)**	(976,070)
		3,005,899	3,035,500

< >

FletcherBuilding

2008 ANNUAL REPORT
FLETCHER BUILDING FINANCE LIMITED

< >

NOTES TO THE FINANCIAL STATEMENTS

continued

		June 2008 NZ$	June 2007 NZ$
7	**Reserve balances**		
	Reserves comprise:		
	Revenue reserve	**(131,386,334)**	(104,217,940)
	Net currency translation reserve	**3,005,899**	3,035,500
		(128,380,435)	(101,182,440)
8	**Provision for current taxation**		
	Opening provision for taxation	**(41,788,763)**	97,196,696
	Currency translation	**(1,639)**	121,206
	Taxation in the earnings statement	**(8,682,795)**	67,527,334
	Taxation in reserves	**35,506,547**	(69,172,088)
	Intercompany payment to Fletcher Building Holdings Limited	**41,063,362**	(167,515,320)
	Net taxation payments	**15,678,515**	30,053,409
		41,775,227	(41,788,763)

FletcherBuilding

2008 ANNUAL REPORT
FLETCHER BUILDING FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS
continued

				June 2008 NZ$	June 2007 NZ$
9	**Capital notes**				
	Capital notes	Coupon	Election date		
	Series 2008	8.60%	15 March 2008		112,670,000
	Series 2010	8.85%	15 March 2010	**37,330,000**	37,330,000
	Series 2010	9.00%	15 March 2010	**29,889,500**	
	Series 2013	8.90%	15 March 2013	**75,000,000**	
	Prepaid expenses			**(2,703,497)**	(862,317)
				139,516,003	149,137,683

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 per cent 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, 22.9 million (June 2007 12.4 million) Fletcher Building Limited shares would be issued at the share price as at 30 June 2008, of $6.35 (June 2007 $12.35). Net tangible asset backing per capital notes issued at 30 June 2008, $1.55 (June 2007 $1.70).

NOTES TO THE FINANCIAL STATEMENTS

continued

< >

10 **Term debt**

Loans subject to the negative pledge

During the year the company borrowed funds based on group covenants and a group negative pledge and guarantee arrangement. The principal borrowing covenants relate to gearing and interest cover and, at 30 June 2008, 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 2008 NZ$	June 2007 NZ$
Loan subject to the negative pledge		
Floating loans		281,969,380
		281,969,380

Credit rating

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

11 **Financial risk management overview**

Exposures to credit, liquidity, currency and interest rate risks arise in the normal course of the company's business. The company is a wholly owned subsidiary of Fletcher Building Limited and does not have an independent policy regarding credit, liquidity, currency and interest rates but is governed by the Fletcher Building group's principles and policy documents approved by the group's Board. The policy documents identify the risk and sets out the group's objectives, policies and processes to measure, manage and report the risk. The policies are reviewed periodically to reflect changes in financial markets and the group's businesses.

To manage the unpredictability of financial markets and minimise the potential adverse effects of these financial risks, the group enters into derivative financial instruments on behalf of the company. Risk management for liquidity, interest rate, and currency exposures are carried out by the group's treasury function.

The company does not enter into derivative financial instruments for trading or speculative purposes, all derivative transactions entered into are to hedge underlying physical positions arising from normal business activities.

FletcherBuilding

< >

NOTES TO THE FINANCIAL STATEMENTS
continued

11

Financial risk management overview

Risks and mitigation

(a) Credit risk

To the extent the company has a receivable from another party, there is a credit risk in the event of non-performance by that counterparty which arises principally from receivables from customers, derivative financial instruments and short-term cash deposits. The company only has credit risk exposure to the Fletcher Building group and has no external credit risk exposure.

(b) Liquidity risk

Liquidity risk is the risk that the company will encounter difficulty in meeting its financial commitments as they fall due. The group manages the liquidity risk of the company by having a spread of maturity dates of the group's debt facilities. Furthermore at 30 June 2008, the Fletcher Building group had $1,988 million of committed bank facilities of which $378 million was undrawn (June 2007 $1,251 million; $618 million).

(c) Currency balance sheet risk

Currency balance sheet risk arises from net investments in foreign operations. It is group policy to hedge this foreign currency balance sheet risk by borrowing in the currency of the asset in proportion to the group's debt to equity ratio. This reduces the variability in the debt to equity ratio due to currency translation.

The company has no balance sheet currency risk as the assets and liabilities are naturally hedged. The company had entered into currency forwards and swaps to hedge the taxation exposure arising from the translation of the Australian operations for up to three years. However these were repaid during the year and are no longer required.

(d) Currency trade risk

Currency trade risk arises from committed or highly probable trade and capital expenditure transactions that are denominated in currencies other than the company's functional currency. The objective in managing this risk is to reduce the variability from changes in currency exchange rates on the operation's income and cashflow to acceptable parameters.

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. The company has no trade or capital expenditure transactions outstanding.

(e) Interest rate risk

Interest rate risk is the risk that the value of a financial instrument or cashflows associated with the instrument will change due to changes in market interest rates and arises primarily from the company's interest bearing borrowings. The group manages the interest rate risk of the company and 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. Cross currency interest rate swaps, interest rate swaps, forward rate agreements and options are entered into to manage this position.

FletcherBuilding

NOTES TO THE FINANCIAL STATEMENTS

continued

11 **Financial risk management overview** continued

Quantitative Analysis

(a) Credit risk

The company has not renegotiated the terms of any financial assets which would otherwise be past due or impaired.

(b) Liquidity Risk

The following table sets out the principal only contractual cashflows for all financial liabilities and gross settled derivatives. The interest component of the cashflows has not been included in the table.

	June 2008				
	Contractual Cashflows NZ$	Up To 1 Year NZ$	1-2 Years NZ$	2-5 Years NZ$	Over 5 Years NZ$
Bank Loans					
Capital Notes	**142,219,500**		**67,219,500**	**75,000,000**	
Cash and Liquid Deposits	**(896)**	**(896)**			
Amounts owing to related companies	**(177,821,030)**			**(177,821,303)**	
Amounts owing by related companies					
Net Balance Sheet Exposure	**(35,602,426)**	**(896)**	**67,219,500**	**(102,821,303)**	
Forward Exchange Contracts					
To pay					
To receive					
Net Trade Exposure					

FletcherBuilding

2008 ANNUAL REPORT
FLETCHER BUILDING
FINANCE LIMITED

< >

NOTES TO THE FINANCIAL STATEMENTS
continued

11 **Financial risk management overview** continued

Quantitative Analysis

	June 2007				
	Contractual Cashflows NZ$	Up To 1 Year NZ$	1-2 Years NZ$	2-5 Years NZ$	Over 5 Years NZ$
Bank Loans	281,969,380			281,969,380	
Capital Notes	150,000,000	112,670,000		37,330,000	
Cash and Liquid Deposits	(1,544)	(1,544)			
Amounts owing to related companies	990,501,539			990,501,539	
Amounts owing by related companies	(1,572,933,427)			(1,572,933,427)	
Net Balance Sheet Exposure	(150,464,052)	112,668,456		(263,132,508)	
Forward Exchange Contracts					
To pay	620,793,457	620,793,457			
To receive	(620,801,527)	(620,801,527)			
Net Trade Exposure	(8,070)	(8,070)			

FletcherBuilding

2008 ANNUAL REPORT
FLETCHER BUILDING
FINANCE LIMITED

< >

NOTES TO THE FINANCIAL STATEMENTS
continued

11 **Financial risk management overview** continued

Quantitative Analysis

(c) Foreign Currency Risk

The company's exposure to foreign current risk is summarised as follows:

	June 2008			June 2007		
	NZD NZ$	AUD NZ$	Total NZ$	NZD NZ$	AUD NZ$	Total NZ$
Bank Loans					281,969,380	281,969,380
Capital Notes	**142,219,500**		**142,219,500**	150,000,000		150,000,000
Cash and Liquid Deposits		**(896)**	**(896)**		(1,544)	(1,544)
Amounts owing to related companies				583,931,173	406,570,366	990,501,539
Amounts owing by related companies	**(177,821,030)**		**(177,821,030)**	(296,486,214)	(1,276,447,213)	(1,572,933,427)
Net Balance Sheet Exposure	**(35,601,530)**	**(896)**	**(35,602,426)**	437,444,959	(587,909,011)	(150,464,052)
Forward Exchange Contracts				(620,801,527)	620,793,457	(8,070)
Net Trade Exposure				(620,801,527)	620,793,457	(8,070)

FletcherBuilding

2008 ANNUAL REPORT
FLETCHER BUILDING FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS
continued

11 **Financial risk management overview** continued

Quantitative Analysis

(d) Interest rate risk

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. As creditors, debtors and investments are not interest rate sensitive they are not included in the tables.

	June 2008						
	Interest Rate By Instrument %	Floating NZ$	Fixed Up To 1 Year NZ$	Fixed 1-2 Years NZ$	Fixed 2-5 Years NZ$	Fixed Over 5 Years NZ$	Total NZ$
Bank loans							
Capital notes	**9.48**			**67,219,500**	**75,000,000**		**142,219,500**
Cash and liquid deposits	**5.00**	**(896)**					**(896)**
Amounts owing to related companies							
Amounts owing by related companies	**9.75**	**(177,821,030)**					**(177,821,030)**
Total		**(177,821,926)**		**67,219,500**	**75,000,000**		**(35,602,426)**

FletcherBuilding

2008 ANNUAL REPORT
FLETCHER BUILDING FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS
continued

11 **Financial risk management overview** continued

Quantitative Analysis

	June 2007						
	Interest Rate By Instrument %	Floating NZ$	Fixed Up To 1 Year NZ$	Fixed 1-2 Years NZ$	Fixed 2-5 Years NZ$	Fixed Over 5 Years NZ$	Total NZ$
Bank loans	6.90	281,969,380					281,969,380
Capital Notes	8.66		112,670,000		37,330,000		150,000,000
Cash and liquid deposits	5.00	(1,544)					(1,544)
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)
Total		961,056,148	(1,148,850,200)		37,330,000		(150,464,052)

FletcherBuilding

NOTES TO THE FINANCIAL STATEMENTS
continued

2008 ANNUAL REPORT
FLETCHER BUILDING FINANCE LIMITED

11 **Financial risk management overview** continued

Quantitative Analysis

(e) Sensitivity analysis

Foreign currency and interest rate risk is governed and managed by the Fletcher Building group. The sensitivity analysis is included in the Fletcher Building group financial statements.

(f) Fair values

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

		June 2008		June 2007	
	Classifications	Carrying Value NZ$	Fair Value NZ$	Carrying Value NZ$	Fair Value NZ$
Bank Loans	Amortised cost			281,969,380	281,969,380
Capital Notes	Amortised cost	**142,219,500**	**141,377,099**	150,000,000	149,388,476
Cash and liquid deposits	Loans and receivable	**(896)**	**(896)**	(1,544)	(1,544)
Amounts owing to related companies	Amortised cost			(990,501,539)	(990,501,539)
Amounts owing by related companies	Loans and receivable	**(177,821,030)**	**(177,821,030)**	1,572,933,427	1,572,933,427
Net Balance Sheet Exposure		**(35,602,426)**	**(36,444,827)**	1,014,399,724	1,013,788,200
Foreign Exchange Contracts	Fair value through P&L			(8,070)	(9,458,470)
Net Trade Exposure				(8,070)	(9,458,470)

In the fair value tables interest accruals and fees are not included in the carrying values. 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 values of amounts owing to and by related companies, cash and liquid deposits 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 the appropriate quotes or derived forward curve is used.

FletcherBuilding

2008 ANNUAL REPORT
FLETCHER BUILDING FINANCE LIMITED

< >

NOTES TO THE FINANCIAL STATEMENTS

continued

12 **Contingent liabilities and capital commitments**

There were no contingent liabilities or capital commitments as at 30 June 2008 (June 2007 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 2008, 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 2008 the guaranteeing group had debt subject to the negative pledge and guarantee and covenants of $1,500 million (June 2007 $566 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.

FletcherBuilding

2008 ANNUAL REPORT
FLETCHER BUILDING FINANCE LIMITED

< >

NOTES TO THE FINANCIAL STATEMENTS

continued

		June 2008 NZ$	June 2007 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.		
	Term receivable owing from related companies		
	Fletcher Building Limited [1]	**177,821,030**	296,478,143
	Fletcher Building (Australia) Pty Limited [2]		1,261,520,200
	Fletcher Building (Australia) Pty Limited [3]	**11,514**	14,935,084
		177,832,544	1,572,933,427
	Term payable owing to related companies		
	Fletcher Challenge Investments Overseas Limited [4]		583,931,173
	Fletcher Building (Australia) Finance Pty Limited [4]		406,570,366
			990,501,539

[1] This unsecured advance represents long term funding even though it is for no fixed term and bears interest at 9.75% (June 2007 9.75%).
[2] This advance was repaid during the year.
[3] This advance was repaid during the year. The remaining balance is an unsecured current account.
[4] These advances were repaid during the year.

During the year the company paid an amount of $37,697,326 (30 June 2007 received $68,910,051) to Fletcher Building Limited in respect of financial instruments.

FletcherBuilding

2008 ANNUAL REPORT
FLETCHER BUILDING FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

continued

14 **Segmental information**

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

Geographical segments	New Zealand NZ$	Australia NZ$	Total NZ$
	June 2008	June 2008	June 2008
Investment income	**24,238,106**	**32,139,853**	**56,377,959**
Earnings before taxation	**11,911,802**	**802,599**	**12,714,401**
Total liabilities	**143,238,488**		**143,238,488**
Total assets	**219,828,223**	**29,830**	**219,858,053**
	June 2007	June 2007	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 liabilities	194,712,181	1,274,413,600	1,469,125,781
Total assets	296,486,214	1,276,457,127	1,572,943,341

FletcherBuilding

< >

AUDIT REPORT

KPMG

To the shareholder of Fletcher Building Finance Limited

We have audited the financial statements on pages 4 to 30. The financial statements provide information about the past financial performance of the company and its financial position as at 30 June 2008. This information is stated in accordance with the accounting policies as set out on pages 9 to 12.

Directors' responsibilities

The Directors are responsible for the preparation of financial statements which give a true and fair view of the financial position of the company as at 30 June 2008 and the results of its operations and cashflows 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 compliance 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; and
- the financial statements on pages 4 to 30:
  - 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 2008 and the results of its operations and cashflows for the year ended on that date.

Our audit was completed on 13 August 2008 and our unqualified opinion is expressed as at that date.

KPMG
Auckland, New Zealand

FletcherBuilding

2008 ANNUAL REPORT
FLETCHER BUILDING
FINANCE LIMITED

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 FBF020, FBF030 and FBF040 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 2008 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 a 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.

FletcherBuilding

2008 ANNUAL REPORT
FLETCHER BUILDING FINANCE LIMITED

DIRECTORY

Directors

Roderick S Deane
Chairman

Paul E A Baines
Chair of the Audit Committee

Hugh A Fletcher
Member of the Audit Committee

John F Judge
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