



FLETCHER BUILDING FINANCE LIMITED  
ANNUAL REPORT 2005

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**FLETCHER BUILDING FINANCE LIMITED IS A WHOLLY OWNED SUBSIDIARY OF FLETCHER BUILDING LIMITED AND ITS RESULTS AND FINANCIAL POSITION NEED TO BE READ IN CONJUNCTION WITH THE FLETCHER BUILDING 2005 ANNUAL REPORT.**

This report is dated 13th September 2005 and is signed on behalf of the Board of Fletcher Building Finance Limited by:

Roderick Deane Chairman

Ralph Waters Chief Executive Officer

## LETTER FROM THE CHAIRMAN

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

Fletcher Building Finance is a wholly owned subsidiary of Fletcher Building Limited and its results and financial position need to be read in conjunction with the Fletcher Building 2005 annual report, a copy of which is enclosed if you are not also a Fletcher Building shareholder. The terms of issue of the capital notes by the company provide that they are guaranteed on an unsecured subordinated basis ranking pari passu or equally with other capital notes issued by Fletcher Building Limited.

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

### Results for the year

Net profit after tax for the year to 30 June 2005 was \$4.8 million (2004 \$1.4 million) with shareholder funds of \$29.6 million (2004 \$22.8 million).

### Business activities

The company was established in 2002 principally to facilitate the funding for the Laminex acquisition by Fletcher Building. It issued capital notes and borrowed funds pursuant to the banking facilities of Fletcher Building. These facilities are fully guaranteed by Fletcher Building. Funds borrowed, including the funds raised by the issue of the capital notes, have been lent on interest-bearing terms to other Fletcher Building group companies. The interest payments made to the company give rise to tax credits that are available to the shareholders of Fletcher Building Limited, and are distributed by way of a dividend to Fletcher Building Limited. The dividend paid during the year was \$28 million (2004 \$24.5 million).

To maintain the company's solvency ratio, Fletcher Building contributed an additional \$30 million of equity during the financial year (2004 \$20 million). The company maintains a foreign currency hedge transaction with Fletcher Building to minimise currency impacts on its earnings and financial position.



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## LETTER FROM THE CHAIRMAN

### Corporate governance

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

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

In recognition that the corporate governance procedures of Fletcher Building Limited will apply to the company, and that the Companies Act 1993 allows directors of a subsidiary company such as Fletcher Building Finance Limited to act in the best interests of the parent company, the New Zealand Exchange (NZX) has

granted a waiver such that the company does not need to comply with the full corporate governance and other regulatory disclosures, provided that the Fletcher Building annual report include these disclosures, and a copy is provided to all noteholders of the company.

Specific governance initiatives instituted by the company include requirements that:

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

The directors of the company believe that these initiatives, combined with the overarching governance procedures of Fletcher Building, provide an appropriate basis for ensuring the company meets its fiduciary obligations to the capital noteholders.

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## LETTER FROM THE CHAIRMAN

### Directorships

Since balance date Ralph Norris has tendered his resignation as a director of Fletcher Building Limited and Fletcher Building Finance Limited as a result of his appointment as the chief executive officer of the Commonwealth Bank of Australia.

### Fletcher Building performance

The financial position of the company is dependent on that of Fletcher Building which I am pleased to report has again performed very well in the June 2005 year. To gain a full appreciation of the activities and performance of the wider Fletcher Building Group, I recommend that you read the Fletcher Building annual report and review its website ([www.fletcherbuilding.com](http://www.fletcherbuilding.com)).

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

**Roderick Deane** Chairman



## STATEMENTS OF FINANCIAL PERFORMANCE AND MOVEMENTS IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2005

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	NOTES	YEAR ENDED JUNE 2005 NZ\$	YEAR ENDED JUNE 2004 NZ\$
<b>Statement of Financial Performance</b>			
Operating revenue	2	75,827,322	54,146,026
Operating expenses		(373,553)	(320,741)
Operating earnings		75,453,769	53,825,285
Funding costs	3	(68,255,188)	(51,686,119)
Earnings before taxation		7,198,581	2,139,166
Taxation expense	4	(2,408,850)	(747,499)
<b>Net earnings</b>		<b>4,789,731</b>	<b>1,391,667</b>
<b>Statement of Movements in Equity</b>			
<b>Total equity</b>			
At the beginning of the year		22,775,283	24,160,325
Net earnings for the year	6	4,789,731	1,391,667
Movement in currency translation reserve	6	457	1,723,291
Total recognised revenues and expenses for the year		4,790,188	3,114,958
Increase in share capital	5	30,000,000	20,000,000
Dividend paid to Fletcher Building Limited	6	(28,000,000)	(24,500,000)
<b>Total equity</b>		<b>29,565,471</b>	<b>22,775,283</b>

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

## STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2005

	NOTES	JUNE 2005 NZ\$	JUNE 2004 NZ\$
<b>Assets</b>			
Current assets:			
Cash and liquid deposits		571	11,473
Prepayments		2,567,527	3,493,518
Provision for current taxation	8	8,768,329	
<b>Total current assets</b>		<b>11,336,427</b>	<b>3,504,991</b>
Non-current assets:			
Amounts owing by related companies	13	1,437,329,287	850,887,753
<b>Total non-current assets</b>		<b>1,437,329,287</b>	<b>850,887,753</b>
<b>Total assets</b>		<b>1,448,665,714</b>	<b>854,392,744</b>

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## STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2005

	NOTES	JUNE 2005 NZ\$	JUNE 2004 NZ\$
<b>Liabilities</b>			
Current liabilities:			
Accrued interest		5,760,095	5,017,437
Creditors		1,150,267	1,772,973
Provision for current taxation	8		6,439,874
<b>Total current liabilities</b>		<b>6,910,362</b>	<b>13,230,284</b>
Non-current liabilities:			
Capital notes	9	150,000,000	150,000,000
Term debt	10	279,171,210	280,486,469
Amounts owing to related companies	13	983,018,671	387,900,708
<b>Total non-current liabilities</b>		<b>1,412,189,881</b>	<b>818,387,177</b>
<b>Total liabilities</b>		<b>1,419,100,243</b>	<b>831,617,461</b>
<b>Equity</b>			
Reported capital	5	80,000,000	50,000,000
Reserves	7	(50,434,529)	(27,224,717)
<b>Total equity</b>		<b>29,565,471</b>	<b>22,775,283</b>
<b>Total liabilities and equity</b>		<b>1,448,665,714</b>	<b>854,392,744</b>

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

On behalf of the Board, 10 August 2005

Roderick Deane Chairman of Directors

Ralph Waters Managing Director

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## STATEMENT OF CASHFLOWS

FOR THE YEAR ENDED 30 JUNE 2005

	YEAR ENDED JUNE 2005 NZ\$	YEAR ENDED JUNE 2004 NZ\$
<b>Cashflow from operating activities:</b>		
Revenue received	76,846,789	71,489,308
Payments to suppliers, employees and other	(373,553)	(320,741)
Interest paid	(67,209,245)	(49,673,200)
Taxes paid	(15,668,493)	(12,547,990)
<b>Net cash from/(used by) operating activities</b>	<b>(6,404,502)</b>	<b>8,947,377</b>
<b>Cashflow from financing activities:</b>		
Advances from related companies	4,393,654	50,341,196
Net debt settlements		(54,782,513)
Issue of shares	30,000,000	20,000,000
Dividend paid to Fletcher Building Limited	(28,000,000)	(24,500,000)
<b>Net cash from/(used by) financing activities</b>	<b>6,393,654</b>	<b>(8,941,317)</b>
Net movement in cash held	(10,848)	6,060
Add opening cash and liquid deposits	11,473	5,654
Effect of exchange rate changes on net cash	(54)	(241)
Closing cash and liquid deposits	571	11,473

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## RECONCILIATION OF NET EARNINGS TO NET CASH FROM OPERATING ACTIVITIES

FOR THE YEAR ENDED 30 JUNE 2005

	YEAR ENDED JUNE 2005 NZ\$	YEAR ENDED JUNE 2004 NZ\$
Cash was received from net earnings	4,789,731	1,391,667
Adjustment for items not involving cash:		
Taxation	(13,259,643)	(11,800,491)
Prepayments	925,991	978,712
Trade creditors and accruals	119,952	1,034,207
Cash was received from financial instruments	1,019,467	17,343,282
<b>Net cash from operating activities</b>	<b>(6,404,502)</b>	<b>8,947,377</b>

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## STATEMENT OF ACCOUNTING POLICIES

FOR THE YEAR ENDED 30 JUNE 2005

### 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 company is also registered in Australia as an overseas company under the Australian Corporations Act 2001. The company was incorporated on 23 October 2002 and began trading on 13 November 2002.

The financial statements comprise statements of financial performance, movements in equity, financial position, 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. These financial statements have been prepared in accordance with generally accepted accounting practice (GAAP) in New Zealand. Where no financial reporting standard or statement of standard accounting practice exists in New Zealand in relation to a particular issue, the accounting policies adopted have been determined having regard to authoritative support. These policies have been applied on a consistent basis.

### Estimates

The preparation of financial statements in conformity with GAAP 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

### 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 operations are translated using an average exchange rate reflecting an approximation of the appropriate transaction rates. Exchange variations arising on the translation of these operations are recognised directly in the currency translation reserve.

### Foreign currency exchange differences

Monetary assets and liabilities in foreign currencies at balance date, 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, covered by forward exchange contracts, are translated at the exchange rates specified in those contracts.



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## STATEMENT OF ACCOUNTING POLICIES

FOR THE YEAR ENDED 30 JUNE 2005

### 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.

### Prepayments

Borrowing costs such as capital notes issue costs, commitment and facility fees are deferred and amortised over the period of expected benefit.

### Taxation

The provision for current tax is the estimated amount due for payment in the next 12 months by the company. The company's provision for deferred tax is the liability for taxation that has been deferred because of timing differences, less taxation benefits which will offset the deferred liability as it arises. The provision for deferred taxation has been calculated using the comprehensive basis under the liability method. The future tax benefit of past and current tax losses, to the extent they exceed related deferred taxation liabilities, are not recognised unless recovery is considered virtually certain.

### 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.



## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 2005 NZ\$	YEAR ENDED JUNE 2004 NZ\$
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### 1 Changes in accounting policies

There have been no changes in accounting policies during the year, however certain comparatives have been restated to comply with the current year's presentation.

### 2 Operating revenue

Operating revenue includes interest received from related companies:

Fletcher Building Limited	17,480,428	16,002,915
Fletcher Building (Australia) Pty Limited	58,346,894	38,143,111
	<u>75,827,322</u>	<u>54,146,026</u>

### 3 Funding costs

Interest payable on:

Term debt	16,806,337	16,927,511
Capital notes interest	12,985,932	13,000,720

Interest paid to related companies:

Fletcher Building (Australia) Pty Limited		187,423
Fletcher Building (Australia) Finance Pty Limited	21,420,364	15,109,928
Fletcher Challenge Investments Overseas Limited	16,042,603	1,207,117
Fletcher Challenge Overseas Holdings Limited		4,171,548
Income from short term deposits	(8,453)	

	<u>67,246,783</u>	<u>50,604,247</u>
Plus bank fees, share registry and issue expenses	1,008,405	1,081,872
	<u>68,255,188</u>	<u>51,686,119</u>

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	YEAR ENDED JUNE 2005 NZ\$	YEAR ENDED JUNE 2004 NZ\$
<b>4 Taxation expense</b>		
Earnings before taxation:		
New Zealand	4,053,309	2,260,652
Overseas	3,145,272	(121,486)
	<b>7,198,581</b>	<b>2,139,166</b>
Taxation at 33 cents per dollar	<b>(2,375,532)</b>	<b>(705,925)</b>
Adjusted for:		
Tax rate adjustment	94,105	(3,644)
Foreign dividend withholding tax payable	<b>(18,318,849)</b>	<b>(13,134,466)</b>
Deductible expenses	<b>18,191,426</b>	<b>13,096,536</b>
	<b>(2,408,850)</b>	<b>(747,499)</b>
Current taxation:		
New Zealand	<b>(1,431,529)</b>	<b>(783,945)</b>
Overseas	<b>(977,321)</b>	<b>36,446</b>
	<b>(2,408,850)</b>	<b>(747,499)</b>
<b>Shareholder tax credits</b>		
Dividend withholding payment credit account:		
Dividend withholding payment credits at the beginning of the year	<b>89,996</b>	89,996
Dividend withholding payment credits received from taxation payments	<b>15,221,989</b>	12,052,554
Dividend withholding payment credits attached to dividends paid	<b>(13,791,045)</b>	<b>(12,052,554)</b>
	<b>1,520,940</b>	<b>89,996</b>

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### 5 Capital

#### Reported capital:

	YEAR ENDED JUNE 2005 NZ\$	YEAR ENDED JUNE 2004 NZ\$
Reported capital at the beginning of the year	50,000,000	30,000,000
Issue of shares	30,000,000	20,000,000
	80,000,000	50,000,000

	YEAR ENDED JUNE 2005	YEAR ENDED JUNE 2004
Number of shares at the beginning of the year	50,000,000	30,000,000
Issue of shares	30,000,000	20,000,000
	80,000,000	50,000,000

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

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	YEAR ENDED JUNE 2005 NZ\$	YEAR ENDED JUNE 2004 NZ\$
<b>6 Reserve movements</b>		
Reserves at the beginning of the year	(27,224,717)	(5,839,675)
Net earnings	4,789,731	1,391,667
Dividend paid to Fletcher Building Limited	(28,000,000)	(24,500,000)
Net currency translations	457	1,723,291
	<b>(50,434,529)</b>	<b>(27,224,717)</b>
	JUNE 2005 NZ\$	JUNE 2004 NZ\$
<b>7 Reserve balances</b>		
Revenue reserves	(53,397,151)	(30,186,882)
Net currency translation	2,962,622	2,962,165
	<b>(50,434,529)</b>	<b>(27,224,717)</b>



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	JUNE 2005 NZ\$	JUNE 2004 NZ\$
<b>8 Provision for current taxation</b>		
Opening provision for taxation	(6,439,874)	4,815,320
Currency translation	(924)	
Taxation in the statement of financial performance	(2,408,850)	(747,499)
Taxation in reserves	(1,015,743)	(15,570,169)
Intercompany payment	2,965,227	(7,485,516)
Net taxation payments	15,668,493	12,547,990
Provision for current tax asset/(liability)	8,768,329	(6,439,874)

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 2005  
NZ\$

JUNE 2004  
NZ\$

### 9 Capital notes

Capital notes	Coupon	Election date		
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
			<b>150,000,000</b>	<b>150,000,000</b>

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, in the prescribed ratio at approximately 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, 22.2 million (June 2004 33.6 million) Fletcher Building Limited shares would be issued at the share price as at 30 June 2005, of \$6.91 (June 2004 \$4.55).

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## NOTES TO THE FINANCIAL STATEMENTS

JUNE 2005  
NZ\$

JUNE 2004  
NZ\$

### 10 Term debt

#### Loans subject to the negative pledge

Floating loans	279,171,210	280,486,469
	<b>279,171,210</b>	<b>280,486,469</b>

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

	JUNE 2005 NZ\$	JUNE 2005 INT. RATE %	JUNE 2004 NZ\$	JUNE 2004 INT. RATE %
Due for repayment:				
within one year				
within two years			170,921,442	5.95
within three years	235,550,709	6.13		
within four years			109,565,027	6.03
within five years	43,620,502	6.13		
after five years				
	<b>279,171,211</b>	<b>6.13</b>	<b>280,486,469</b>	<b>5.96</b>

#### Credit rating

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

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## NOTES TO THE FINANCIAL STATEMENTS

### 11 Financial instruments

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

#### Management policies

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

#### Currency balance sheet risk

There is no foreign exchange exposure to balance sheet currency risk as the assets and liabilities are naturally hedged. The company has entered into currency forwards and swaps to hedge the taxation exposure arising from the translation of the Australian operations.

#### 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.

#### 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.

#### Off balance sheet risk

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 with off balance sheet risk for the company are as follows:

## NOTES TO THE FINANCIAL STATEMENTS

### 11 Financial instruments continued

	JUNE 2005 NZ\$	JUNE 2004 NZ\$
Principal or contract amount:		
Currency forward exchange contracts		
To pay	614,640,901	325,408,130
To receive	(614,640,901)	(325,408,130)

The cash settlement amounts of these instruments, if they had settled on 30 June 2005, approximates the principal or contract amount.

#### Interest rate repricing

The following table sets out the interest rate repricing profile and weighted average interest rate of the company's term debt and capital notes:

	JUNE 2005 NZ\$	JUNE 2005 INT. RATE %	JUNE 2004 NZ\$	JUNE 2004 INT. RATE %
Interest rate repriced: (including average interest rate)				
within one year	279,171,210	6.13	280,486,469	6.00
within two years				
within three years				
within four years	112,670,000	8.60		
within five years			112,670,000	8.60
after five years	37,330,000	8.85	37,330,000	8.85
	429,171,210	7.01	430,486,469	6.93

The net effective interest rate for cash and liquid deposits as at 30 June 2005 is 2.0 percent (June 2004 2.0 percent). Creditors are not interest rate sensitive.

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### 11 Financial instruments continued

#### Fair values

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

	JUNE 2005 CARRYING VALUE NZ\$	JUNE 2005 FAIR VALUE NZ\$	JUNE 2004 CARRYING VALUE NZ\$	JUNE 2004 FAIR VALUE NZ\$
Currency forward exchange contracts gain/(loss)		(13,722,743)		(7,026,298)

The fair value of derivative financial instruments is estimated based on the quoted or estimated market prices of those instruments.

### 12 Contingent liabilities and capital commitments

There were no contingent liabilities or capital commitments as at 30 June 2005 (June 2004 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 as at 30 June 2005, 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 2005 the guaranteeing group had debt subject to the negative pledge and guarantee and covenants of \$798 million (June 2004 \$478 million).

## NOTES TO THE FINANCIAL STATEMENTS

### 13 Related party transactions

JUNE 2005  
NZ\$

JUNE 2004  
NZ\$

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

Term receivable owing from related companies

Fletcher Building Limited <sup>1</sup>	170,026,772	180,776,011
Fletcher Building (Australia) Pty Limited <sup>2</sup>	1,249,001,298	661,772,762
Fletcher Building (Australia) Pty Limited <sup>3</sup>	18,301,217	8,338,980
	<b>1,437,329,287</b>	<b>850,887,753</b>

Term liability owing to related companies

Fletcher Challenge Investments Overseas Limited <sup>4</sup>	629,660,538	54,399,080
Fletcher Building (Australia) Finance Pty Limited <sup>4</sup>	353,358,133	333,501,628
	<b>983,018,671</b>	<b>387,900,708</b>

<sup>1</sup> This unsecured advance represents long term funding even though it is for no fixed term and bears interest at 9.75% (June 2004 9%).

<sup>2</sup> This advance represents 1,145,334,190 (June 2004 604,000,000) 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 2005 the interest rate was 7.2125% (June 2004 6.667%).

<sup>3</sup> This unsecured advance represents long term funding even though it is for no fixed term and bears interest at 6.7675% (June 2004 6.2217%).

<sup>4</sup> These advances are unsecured and are for a fixed term to 31 March 2007. As at 30 June 2005 the interest rate was 6.7675% (June 2004 6.2217%).

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## NOTES TO THE FINANCIAL STATEMENTS

### 14 Segmental information

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

	GEOGRAPHICAL SEGMENTS		
	NEW ZEALAND	AUSTRALIA	TOTAL
	NZ\$	NZ\$	NZ\$
	JUNE 2005	JUNE 2005	JUNE 2005
Operating revenue	17,480,428	58,346,894	75,827,322
Earnings before taxation	4,053,309	3,145,272	7,198,581
Total assets	181,695,457	1,266,970,257	1,448,665,714

	GEOGRAPHICAL SEGMENTS		
	NEW ZEALAND	AUSTRALIA	TOTAL
	NZ\$	NZ\$	NZ\$
	JUNE 2004	JUNE 2004	JUNE 2004
Operating revenue	16,002,915	38,143,111	54,146,026
Earnings before taxation	2,260,652	(121,486)	2,139,166
Total assets	184,269,529	670,123,215	854,392,744

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### 15 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 and the Fletcher Building group proposes to do so. Accordingly the company will prepare financial statements using New Zealand standards that comply with IFRS for the period beginning on 1 July 2005. The first interim financial statements prepared under IFRS will be for the six months ended 31 December 2005 and the first annual financial statements will be for the year ended 30 June 2006.

When complying with IFRS for the first time the company will need to restate the comparative financial statements using IFRS. This will include the earnings and cashflow statements and the balance sheet. Most adjustments required on transition to IFRS will be made retrospectively against opening retained earnings at 30 June 2004, however transitional adjustments relating to those standards where comparatives are not required, will only be made at 30 June 2005.

The purpose of this disclosure is to highlight the impact that the company expects as a result of transitioning to IFRS from current NZ GAAP based on the standards as they are today. It is possible that future developments will change the nature of the adjustments required by the time the company reports its first financial statements prepared under IFRS. As we progress towards 30 June 2006 the company intends to continue to provide users of the financial statements with information about the likely impacts of IFRS on the company's earnings, cashflows and financial position.

## NOTES TO THE FINANCIAL STATEMENTS

### 15 International Financial Reporting Standards continued

The impact of adjustments on the financial statements is set out below:

	EQUITY NZ\$	TOTAL LIABILITIES NZ\$	OPERATING ASSETS NZ\$	NET EARNINGS NZ\$	EARNINGS NZ\$
03 Letter from the chairman					
06 Statement of financial performance					
	Reported at				
	30 June 2005				
	using NZ GAAP	29,565,471	1,419,100,243	1,448,665,714	75,453,769
06 Statement of movements in equity					
	Estimated adjustment to financial instruments <sup>1,2</sup>	(9,194,238)	11,155,216	1,960,978	
07 Statement of financial position					
	Restated balance under IFRS at 30 June 2005	20,371,233	1,430,255,459	1,450,626,692	75,453,769
09 Statement of cashflows					4,789,731
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#### <sup>1</sup> Financial instruments

Accounting for financial instruments under IFRS involves some major changes from NZ GAAP. 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 will be carried at fair value on the company's balance sheet. If a derivative financial transaction does not qualify for hedge accounting, the mark to market fair value movement will be taken to earnings. If a derivative financial transaction does qualify for hedge accounting, the mark-to-market fair value movement will be taken to a reserve within equity. As all of the financial derivative instruments entered into are to protect the company's current position and are not speculative in nature, the majority of instruments will qualify for hedge accounting. Upon first time adoption of IFRS a mark-to-market fair value loss of \$13,722,743 will be recognised against retained earnings at 1 July 2005, however for the purposes of this note we have shown the adjustment as at 30 June 2005. A deferred tax asset of \$4,528,505 will also be recognised. In addition, IFRS requires prepaid borrowing costs of \$2,567,527 to be netted off against the liability, rather than being shown as a separate asset, as currently treated under NZ GAAP.

#### <sup>2</sup> Taxation

IFRS requires the use of the "balance sheet" approach rather than the "profit and loss account" approach required under NZ GAAP. This will require the recognition of a deferred tax asset of \$4,528,505 on the loss recognised on the fair value of financial instruments.

## AUDIT REPORT



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### To the shareholder of Fletcher Building Finance Limited

We have audited the financial statements on pages 6 to 26. The financial statements provide information about the past financial performance of the company and its financial position as at 30 June 2005. This information is stated in accordance with the accounting policies set out on pages 11 and 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 2005 and the results of its operations and cashflows 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 judgements 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.

Other than in our capacity as auditors we have no relationship with or interest in the company.

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## AUDIT REPORT

### 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 6 to 26:
  - 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 2005 and the results of its operations and cashflows for the year ended on that date.

Our audit was completed on 10 August 2005 and our unqualified opinion is expressed as at that date.

KPMG Auckland, New Zealand

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

Computershare Investor Services Limited  
Private Bag 92 119  
Auckland 1020  
Level 2, 159 Hurstmere Rd  
Takapuna, North Shore City  
New Zealand  
Telephone: +64 9 488 8777  
Facsimile: +64 9 488 8787

### Other investor enquiries

Fletcher Building Finance Limited  
Private Bag 92 114  
Auckland, New Zealand  
Telephone: +64 9 525 9000  
Facsimile: +64 9 525 9032  
Email: [moreinfo@fb.co.nz](mailto:moreinfo@fb.co.nz)  
Website: [www.fletcherbuilding.com](http://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 2005 can be viewed at the Fletcher Building website, at [www.fletcherbuilding.com](http://www.fletcherbuilding.com). This website contains all news releases to the New Zealand Exchange and financial presentations made by Fletcher Building.

### Other information

#### New Zealand Exchange Waiver

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:

that the company send copies of the annual and half-yearly reports of Fletcher Building (with financial information relating to the Fletcher Building Group) to its noteholders, 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 that the Fletcher Building annual report contain details of the spread of the company's noteholders and the corporate governance policies, practices and processes.

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## DIRECTORY

### DIRECTORS

RODERICK S DEANE **CHAIRMAN**  
 PAUL E A BAINES **CHAIR OF THE AUDIT COMMITTEE**  
 HUGH A FLETCHER **MEMBER OF THE AUDIT COMMITTEE**  
 GEOFFREY J MCGRATH  
 RALPH J NORRIS **RESIGNED 9 AUGUST 2005**  
 SIR DRYDEN SPRING  
 KERRIN M VAUTIER **MEMBER OF THE AUDIT COMMITTEE**  
 RALPH G WATERS **CHIEF EXECUTIVE OFFICER AND MANAGING DIRECTOR**

### MANAGEMENT

MARTIN C FARRELL **COMPANY SECRETARY**  
 WILLEM J ROEST **CHIEF FINANCIAL OFFICER**  
 DONALD L LE QUESNE **AUSTRALIAN BRANCH MANAGER**

### REGISTERED OFFICES

NEW ZEALAND  
 FLETCHER BUILDING FINANCE LIMITED  
 PRIVATE BAG 92 114, AUCKLAND

FLETCHER HOUSE  
 810 GREAT SOUTH ROAD  
 PENROSE, AUCKLAND  
 NEW ZEALAND

TELEPHONE +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

TELEPHONE +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  
 P.O. BOX 3376, AUCKLAND

LEVEL 17, HSBC CENTRE  
 1 QUEEN STREET  
 AUCKLAND

TELEPHONE +64 9 366 3290