

Accounting policies

Basis of presentation

The financial statements presented are those of Fletcher Building Limited (the company) and its subsidiaries (the group). Fletcher Building Limited is a company domiciled in New Zealand, is registered under the Companies Act 1993, and is an issuer in terms of the Securities Act 1978 and the Financial Reporting Act 1993. The registered office of the company is 810 Great South Road, Penrose, Auckland. Fletcher Building 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). They also comply with International Financial Reporting Standards.

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

Segmental reporting

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

Estimates

The preparation of financial statements in conformity with NZ IFRS requires the directors to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of sales and expenses during the reporting period. Actual results could differ from those estimates. The estimates and assumptions are reviewed on an ongoing basis. For further information on areas of estimation and judgement, refer to the notes to the financial statements, in particular notes 19 and 25.

Basis of consolidation

The consolidated financial statements comprise the company and its subsidiaries and the

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

Subsidiaries

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

Associates

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

Goodwill on acquisition

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

Goodwill is stated at cost, less any impairment losses. Goodwill is allocated to cash-generating units and is not amortised, but is tested annually for impairment. Goodwill in respect of associates is included in the carrying amount of associates. Negative goodwill, or a discount on acquisition, is recognised directly in earnings on acquisition.

Joint ventures and partnerships

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

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

Valuation of assets

Land, buildings, plant and machinery, fixtures and equipment

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

The costs of self-constructed assets include, where appropriate, the costs of all materials used in construction, direct labour on the project, site preparation and installation costs, costs of obtaining resource consents, financing costs that



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are directly attributable to the project, variable and fixed overheads and unrecovered operating costs incurred during planned commissioning. Costs cease to be capitalised as soon as the asset is ready for productive use. All feasibility costs are expensed as incurred.

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

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

Investments

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

Stocks

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

Debtors

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

Construction work in progress

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

Cash

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

Impairment

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

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

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

Goodwill and brands with an indefinite life are tested for impairment in June of each year. Other assets are tested for impairment when an indication of impairment exists.

Brands

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

Retirement plans

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

Foreign currency

Translation of the financial statements of foreign operations

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

Exchange differences

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

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

Net investments in foreign operations

Exchange differences arising from the translation

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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.

Financial instruments

Non-derivative financial instruments

Non-derivative financial instruments comprise term debt, capital notes, trade and other payables, cash and cash equivalents, and trade and other receivables.

Non-derivative financial instruments are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

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.

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

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

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

Derivative financial instruments are initially recorded at fair value and are then revalued to fair value at each balance 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. This relationship must be documented from inception.

Fair value hedges

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

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 on the same basis as 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.

Valuation of liabilities

Taxation

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

Deferred tax assets are not recognised on temporary differences and tax losses unless recovery is considered probable.

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

Finance leases

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

Borrowings

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

Creditors

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

Annual leave

Annual leave is recognised on an accrual basis.



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Provisions

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

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. Costs directly attributable to the issue of new shares or options are shown in shareholders' funds as a reduction from the proceeds.

Dividends are recognised as a liability in the period in which they are declared.

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

Income determination

Sales recognition

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

Construction contracts

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

Investment revenue

Dividends and distributions are taken to earnings when received, or accrued where declared prior to balance date.

Funding costs

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

Depreciation

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

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

Leasing commitments

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

Retirement plan expense

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

All actuarial gains or losses are amortised to earnings over the remaining average service life of plan members employed by the group.

Long service leave

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

Research and development

Expenditure on research activities is recognised in earnings as incurred.

Employee share purchase scheme

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

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

Executive share schemes

The company has implemented long-term cash-based performance incentive schemes targeted at the company's executives most able to influence the results of the company with an agreed percentage of any cash received to be invested in purchasing the company's shares.

The executive performance share scheme introduced in 2004 allows group executives to acquire shares in the company at market price, funded by an interest-free loan from the group.

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Income determination – continued

The executives are entitled to vote on the shares and to receive cash dividends, the proceeds of which are used to repay the loan. The shares are held in trust for the executives by the Trustee, Fletcher Building Share Schemes Limited. Payment of any benefit under the executive performance share scheme is dependent upon the group's total shareholder return exceeding the 51st percentile of the total shareholder return of a comparative group of companies.

In 2008, the executive long-term share scheme was introduced for a small number of senior executives. Payment of half of any benefit is dependent upon total shareholder return and payment of the other half of any benefit is dependent upon the group achieving an earnings per share target.

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

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

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

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