



2006 ANNUAL REPORT

BUILDING VALUE



BMHC

BMHC is one of the largest providers of residential construction services and building materials in the United States. The Company serves the homebuilding industry through two subsidiaries: SelectBuild provides construction services to high-volume production homebuilders; BMC West distributes building materials and manufactures building components for professional builders and contractors.

BUILDING STRENGTH



The plumb bob and line used in our Company logos is a simple tool used by carpenters, masons and other construction professionals to ensure that the structural elements of a building are properly aligned to the vertical. The plumb bob provides a true measure of reality and brings a level of precision to the construction process. At BMHC, we strive to do the same, communicating with production and custom homebuilders to gain a clear understanding of where our industry is headed and to develop a business that accurately addresses the construction services and materials needs of our customers.

BUILDING RESOURCES



A LEADING PROVIDER OF INTEGRATED CONSTRUCTION SERVICES

to high-volume production homebuilders in key markets in the United States. By combining labor, structural components, materials and logistics management, across a growing range of trades, SelectBuild improves quality and reduces construction project cycle time for its customers. SelectBuild continues to extend its leadership position by expanding its business, adding new services and serving new geographies.



THE PREFERRED SUPPLIER OF HIGH-QUALITY BUILDING MATERIALS,

manufactured components and installation services for regional and custom homebuilders and contractors in key markets in the United States. BMC West's growth has been driven by broadening its product range to include more value-added products and services such as structural components, millwork and a variety of installation services, and by continuing to capture market share in lumber and materials distribution.

 **STRUCTURAL SHELL CONSTRUCTION**
wood framing • concrete block

 **PLUMBING**

 **CONCRETE FOUNDATIONS AND SLABS**

 **COMPONENT MANUFACTURING**
roof trusses • floor trusses • wall panels

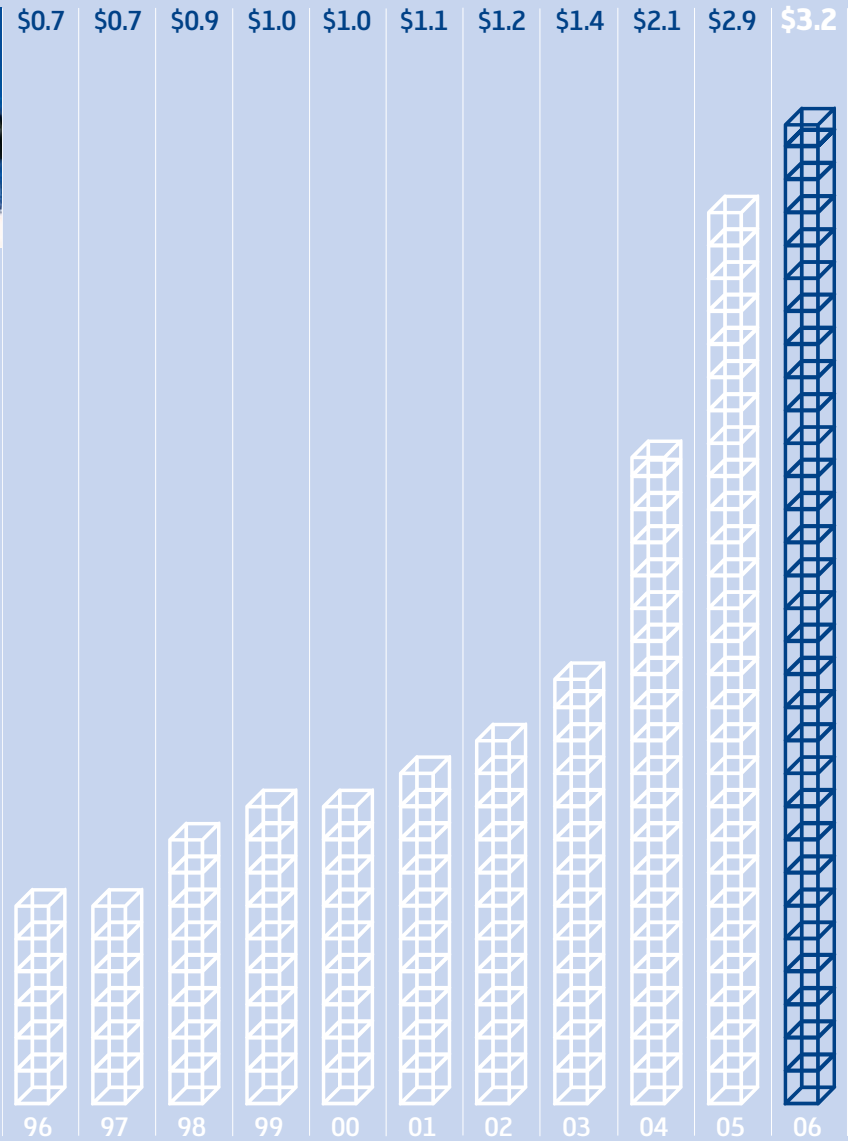
 **MILLWORK FABRICATION
AND INSTALLATION**
doors • windows • stairs • cabinets • trim

 **MATERIALS DISTRIBUTION**



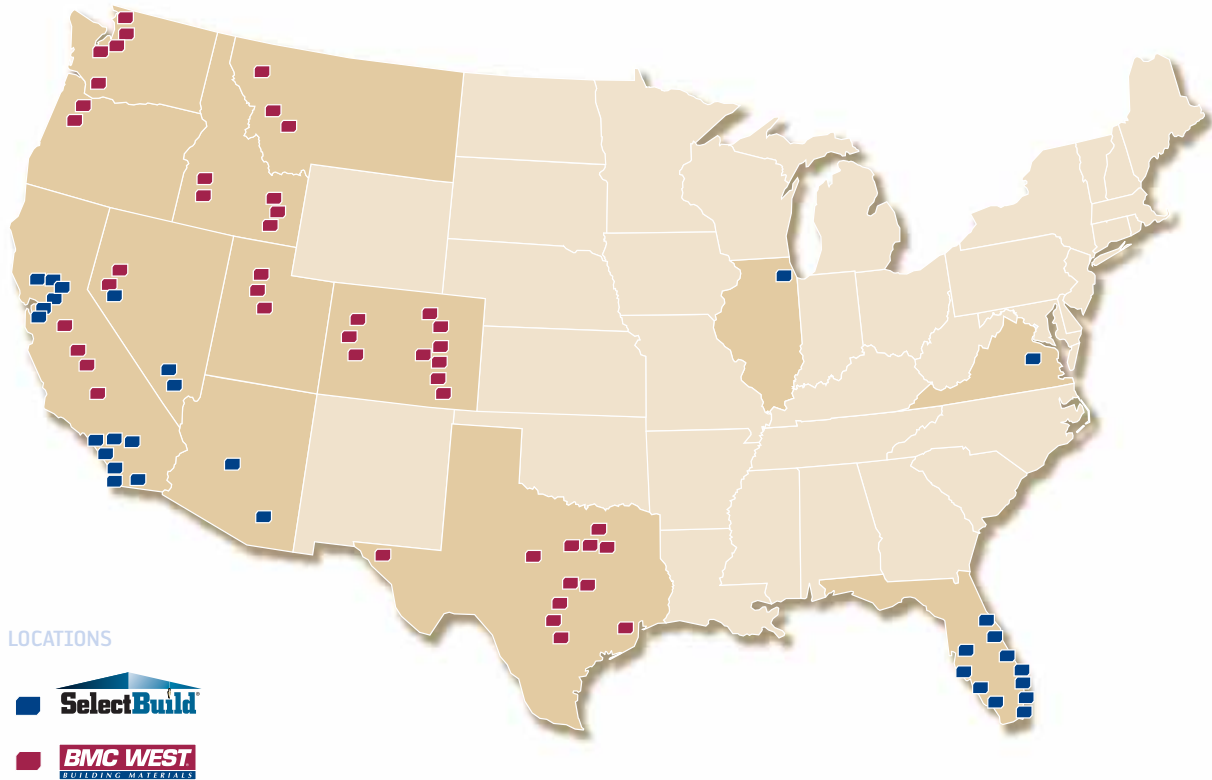
HISTORY OF GROWTH

(sales in billions)



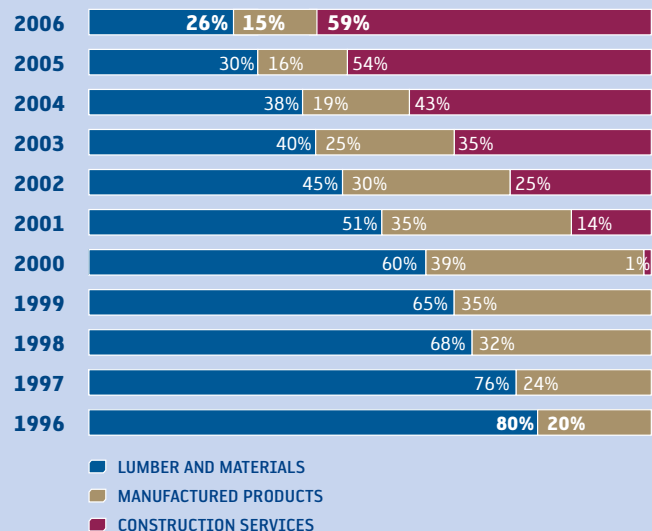
ACROSS THE COUNTRY

BMHC is one of the largest providers of construction services and building materials to the U.S. homebuilding industry.



We have expanded our construction services in important areas such as framing and window installation, while broadening our materials distribution and manufactured product offerings.

CHANGE IN SALES MIX



FINANCIAL HIGHLIGHTS

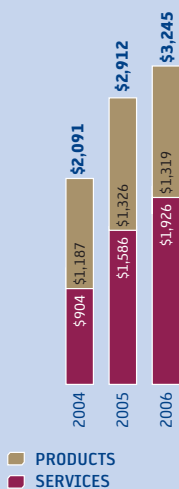
(thousands, except per share data)

	YEAR ENDED DECEMBER 31				
	2006	2005	2004	2003	2002
SALES ⁽¹⁾					
CONSTRUCTION SERVICES	\$ 1,926,077	\$ 1,586,509	\$ 904,362	\$ 498,052	\$ 293,063
BUILDING PRODUCTS	1,319,092	1,325,651	1,186,663	917,019	868,431
TOTAL SALES	\$ 3,245,169	\$ 2,912,160	\$ 2,091,025	\$ 1,415,071	\$ 1,161,494
INCOME FROM OPERATIONS ⁽²⁾	\$ 197,455	\$ 239,356	\$ 108,108	\$ 40,429	\$ 39,121
NET INCOME	\$ 102,074	\$ 129,507	\$ 53,910	\$ 19,929	\$ 7,015 ⁽³⁾
NET INCOME PER SHARE ⁽⁴⁾					
BASIC	\$ 3.57	\$ 4.61	\$ 2.00	\$ 0.75	\$ 0.27
DILUTED	\$ 3.45	\$ 4.41	\$ 1.94	\$ 0.74	\$ 0.26
ANNUAL CASH DIVIDENDS DECLARED PER SHARE ⁽⁴⁾	\$ 0.40	\$ 0.24	\$ 0.14	\$ 0.105	\$ 0.025
WORKING CAPITAL	\$ 242,800	\$ 304,459	\$ 284,173	\$ 216,898	\$ 170,492
TOTAL ASSETS	\$ 1,328,911	\$ 1,150,525	\$ 743,044	\$ 604,199	\$ 503,074
LONG-TERM DEBT, NET OF CURRENT PORTION	\$ 349,161	\$ 278,169	\$ 206,419	\$ 186,773	\$ 157,375
SHAREHOLDERS' EQUITY	\$ 572,629	\$ 470,061	\$ 327,678	\$ 271,010	\$ 251,300
CASH FLOWS PROVIDED BY OPERATIONS	\$ 273,418	\$ 198,294	\$ 33,374	\$ 12,479	\$ 35,726
	2006	2005	2004	2003	2002
⁽¹⁾ Acquisitions provided sales of:	\$ 701,604	\$ 403,919	\$ 221,407	\$ 155,176	\$ 117,371
⁽²⁾ Acquisitions provided income (loss) from operations of:	\$ 55,454	\$ 31,588	\$ 2,764	\$ (3,628)	\$ 9,827

⁽³⁾ The transitional impairment analysis of goodwill resulted in an impairment of \$11.7 million net of tax.

⁽⁴⁾ All share and per share information for all periods has been adjusted to reflect a two for one split of our common shares in February 2006.

SALES (in millions)



OPERATING INCOME (in millions)



NET INCOME (in millions)





“We continued to gain market share with both of BMHC’s subsidiaries, SelectBuild and BMC West, and grew our top line in 2006 by 11%, reporting record sales of \$3.2 billion.”

ROBERT E. MELLOR

*Chairman, President and
Chief Executive Officer*

TO OUR VALUED SHAREHOLDERS:

BUILDING CONFIDENCE

In 2006, we navigated through a year of industry transition and challenge. Against the backdrop of strong macroeconomic factors, the homebuilding sector experienced a difficult environment. Driving the correction was constrained housing affordability, which plummeted to a 15-year low due to a combination of slightly higher mortgage rates and extraordinary home price increases, resulting in an excess inventory of unsold homes. During this period, we preserved our commitment to meeting the needs of our customers – high-volume production homebuilders, regional and custom homebuilders, and contractors. As the industry shifted from a period of hyper-growth, we continued to advance our business strategically and further extended our position as a leading provider of integrated construction services and building materials in key homebuilding markets in the United States. We continued to gain market share with both of BMHC’s subsidiaries, SelectBuild and BMC West. We grew our top line in 2006 by 11%, reporting record sales of \$3.2 billion. We took decisive action throughout the year and substantially reduced our staffing to manage our margins and to address the industry slowdown. While confronting the challenges of a falling market and declining commodity wood product prices, we stayed focused on maintaining a healthy balance sheet, reinforced our financial position to fund future growth of the Company and continued to expand the breadth of our construction services and to integrate recent acquisitions.

Reflecting on the success of our business strategy, we increased the top line at SelectBuild by 24%. We now serve approximately two-thirds of the top 25 high-volume production homebuilders in the U.S. In light of the consolidation which has taken place in the homebuilding industry over the last several years, we believe our best opportunities for future growth will be found through our continued close alignment with the top homebuilders and the leading regional and custom homebuilders. As such, we plan to maintain our focus on providing excellent service and efficiencies to these homebuilders by continuing to extend the services and products we offer through SelectBuild and BMC West.



“As we have grown and diversified our business through acquisitions, we have been careful to select market-leading companies and management teams that broaden our range of services and address customer needs in our target geographies.”



KEY ACCOMPLISHMENTS

Our financial results were the second best in the Company's history, surpassed only by those of 2005. During 2006, we achieved a number of significant objectives which we believe have improved our position in the market. We grew and diversified our business by making eight acquisitions and completing the buyouts of two other non-wholly owned subsidiaries. Each of these investments has enhanced our position in the market and furthered our strategy to expand the breadth of services and products we provide to our customers. As we have grown and diversified our business through acquisitions, we have been careful to select market-leading companies and management teams that broaden our range of services and products to address customer needs in our target geographies. In 2006, the acquisitions made by SelectBuild broadened our construction services capabilities in important areas such as framing and window installation. At BMC West, we extended our distribution and millwork capabilities in key homebuilding markets.

We undertook a number of strategic financial initiatives in 2006 to better position the Company for the years ahead. In the first quarter, our Board of Directors approved a two-for-one stock split, which we believe should improve liquidity and allow broader ownership of the Company's shares. In conjunction with our stock split, our quarterly cash dividend was increased by 33%, marking our third consecutive year of dividend increases. Importantly, we expanded our credit facility by \$200 million to \$850 million, with the option to further expand it to \$1.1 billion, which provides improved financial flexibility and enhances our position for long-term growth. We also moved our share listing to the New York Stock Exchange, which we believe will provide a more orderly trading environment, increase our visibility in the financial community and enable us to reach a wider range of investors. We believe these initiatives will further support the Company's long-term business strategy and benefit our shareholders. We also brought two new members onto our Board of Directors with the additions of David Moffett and Norman Walker, who bring extensive experience in the areas of finance and accounting.

SELECTBUILD

In our SelectBuild subsidiary, we embarked on an ambitious plan several years ago to expand the turnkey construction services we provide to enable high-volume production homebuilders to have their homes built more efficiently and profitably. Our strategy is working, as demonstrated by the 24% growth we achieved in SelectBuild sales in 2006, despite the homebuilding market challenges. By providing our customers with an integrated package of labor and logistics management, combined with a growing range of trades, we were able to reduce cycle times and improve quality for our customers. These capabilities, combined with our scale, geographic reach and financial strength, have led us to increase our market share and become the provider of choice for high-volume production builders in many of our targeted markets.



“During 2006, we broadened our product range to include more value-added products and services in addition to lumber and materials distribution.”



The Company's strong performance in 2006 was fueled by the continued execution of our business strategy. During 2006, SelectBuild significantly expanded its framing services capabilities by acquiring the assets of Benedetti Construction Management, MWB Building Contractors, and Davis Brothers Framing. Benedetti is the largest framing company in Palm Springs and the low desert area of Southern California. With MWB, SelectBuild expanded operations in Northern California and extended its construction service capabilities to the Reno, Nevada market. Importantly, we broadened SelectBuild's customer base to include high-density residential builders in Southern California with the addition of Davis Brothers Framing. SelectBuild also broadened its services in the greater Phoenix, Arizona market to include window installation by acquiring the assets of Topline Windows & Doors. We believe that each of these carefully selected acquisitions has strengthened our ability to compete in the markets we serve and to enter new markets. Additionally, a key element of our acquisition criteria has always been to invest in companies whose management teams share our core values. The selection of companies with management teams that value customer relationships and treat their employees with respect has facilitated our integration efforts and resulted in strong retention rates of management teams post-acquisition.

All of our acquisition initiatives will remain measured and strategic, as we believe industry conditions afford us continued opportunity for market share growth.

BMC WEST

At BMC West, our success has been driven by our commitment to being the preferred supplier of high-quality building materials, manufactured building components, millwork and installation services in key homebuilding markets. During 2006, we broadened our product range to include more value-added products and services in addition to lumber and materials distribution. We expanded our capabilities in manufacturing and the installation of millwork and structural components such as roof trusses and wall panels. By leveraging our scale and providing a wider range of products and services to meet our customers' varying needs by regional markets, we captured market share in many of our regions, even while commodity wood product prices declined.

To further our business strategy and to complement and expand existing operations, BMC West made acquisitions during 2006 with the goal of providing the best services and materials to our customers. BMC West acquired the assets of Home Lumber, broadening its building materials distribution and millwork capabilities in the greater Houston, Texas market. BMC West also bolstered its panel and truss manufacturing capabilities with an asset acquisition in Eastern Idaho.



“Our growth and achievement would not have been possible without the contributions and dedication of our employees.”



CORE VALUES

At BMHC our core values have remained consistent for the 20 years since the Company's formation. The entrepreneurial spirit that founded and built BMHC and enabled it to achieve its record performance in recent years continues to guide our actions and move us toward achieving our strategic goals. In challenging times, it is perhaps more important than ever to reaffirm our core values:

- a commitment to excellence and integrity,
- the dedication to providing the right services and products to our customers, and
- our obligation to provide a safe and rewarding work environment for all employees.

These are the values that drive and define the Company and contribute to our success. Sound corporate governance practices, ethical conduct and an environment of respect and integrity are the cornerstones of our corporate culture. To support these values, we continue to invest in the development of our employees. As our workforce has become increasingly culturally diverse, we have established communications initiatives to meet the needs of all employees. Across our organization, we conduct education and safety programs to develop and improve the work environment for all of our people.

By creating a culture that embraces our core values, we have nurtured a desire to give back to the community. Employees actively participate in Company-wide efforts which foster local community involvement through the donation of financial resources, volunteers and building materials. In 2006, BMHC's sponsorship of its employees and their families for the Leukemia and Lymphoma Society's "Light the Night Walk" ignited broad Company participation of over 1,400 sponsored walkers. We were also proud to continue our affiliation with Habitat for Humanity. Having worked with the organization for several years, we view this involvement as a natural fit and an opportunity to share our skills, knowledge and materials to enable those less fortunate to build homes in the communities in which they live. Our citizenship values also extend to the environment, where we have initiated best practice recycling standards for building materials, thus reducing the environmental impact on the communities in which we have operations.

Our growth and industry achievements would not have been possible without the contributions and dedication of our employees. We are proud of our entire team's efforts and hard work in supporting our strategy. It was, therefore, very rewarding to be acknowledged by independent third parties for our success, as we were in 2006 when BMHC was named to Fortune Magazine's 100 Fastest Growing Companies and, for a second consecutive year, to Forbes Magazine's 400 Best Big Companies.





LOOKING AHEAD

In 2007, we expect to face continued challenges in a difficult year as homebuilders curtail their production and the market absorbs excess new home inventory. Despite increased restraint by the homebuilders, there continues to be a substantial inventory overhang in the homebuilding market. We are, however, encouraged that the current macroeconomic factors that support a healthy housing market, such as interest rates, employment, and consumer confidence, remain favorable. We are dedicated to managing our cost structure and look to reduce costs by leveraging our scale and increasing our use of shared services. We will keep our focus on maintaining margins, and cost controls, and we will continue to be both measured and opportunistic in expanding our market share. We are embarking on the 20th year of business for BMHC and our experience and scale provide us with distinct advantages over others in weathering this challenging cycle. We are confident in our ability to respond appropriately to this cycle and continue our strategy of being the preferred provider of construction services and materials.

In 2006, our long time director Alec Beck lost his life in an accident and we will miss him and his dedication to BMHC.

Our team has performed very well in the face of the increasing challenges in our industry. I thank all of our employees and our board of directors for their commitment and dedication in 2006.

As we celebrate our 20th anniversary, I greatly appreciate the continued support of our customers, suppliers, and shareholders.

Sincerely,

Robert E. Mellor

Chairman, President and Chief Executive Officer



CORPORATE INFORMATION

INVESTOR INFORMATION

Corporate Headquarters

Building Materials Holding Corporation
Four Embarcadero Center, Suite 3200
San Francisco, CA 94111
415.627.9100
415.627.9119 fax

Stock Listing

Building Materials Holding Corporation common stock is listed on the New York Stock Exchange under the symbol BLG.

Shareholder Services

Shareholders, interested investors, financial analysts and others may obtain a copy of the Company's 2006 Form 10-K filed with the Securities and Exchange Commission by contacting:
Building Materials Holding Corporation
Attn: Investor Relations
Four Embarcadero Center, Suite 3200
San Francisco, CA 94111
415.627.9100
E-mail: investor@bmhc.com
Additional information is also available through the Company's website: www.bmhc.com, including the ability to register for automatic delivery via e-mail of news releases, SEC filings, financial reports and more.

Transfer Agent and Registrar

Wells Fargo Shareowner Services
Postal mail:
PO Box 64874
St. Paul, MN 55164-0875
Street address:
161 North Concord Exchange
South St. Paul, MN 55075-0854
www.wellsfargo.com/shareownerservices
800.468.9716

Annual Meeting

The annual meeting of BMHC shareholders will be held:
Tuesday, May 1, 2007, 8:00 a.m.
Four Seasons Resort
10600 East Crescent Moon Drive
Scottsdale, AZ 85262
Proxy materials will be mailed to shareholders of record prior to the meeting.

Legal Counsel

Gibson, Dunn & Crutcher LLP

Independent Registered

Public Accounting Firm

KPMG LLP

BOARD OF DIRECTORS

(as of March 2007)

Robert E. Mellor

Chairman of the Board

Sara L. Beckman

Professor
Haas School of Business at University of California, Berkeley
Audit Committee Member
Compensation Committee Member

Eric S. Belsky

Executive Director
Joint Center for Housing Studies
of Harvard University
Finance Committee Member
Nominating and Corporate Governance Committee Member

James K. Jennings, Jr.

Executive Vice President
Atreides Capital, LLC
Audit Committee Chair
Finance Committee Member

Norman J. Metcalfe

Owner
Norman Metcalfe Consulting, Inc.
Audit Committee Member
Finance Committee Member

David M. Moffett

Retired Chief Financial Officer
U.S. Bancorp
Compensation Committee Member
Finance Committee Member

R. Scott Morrison, Jr.

Owner and President
Morrison Properties
Compensation Committee Chair
Nominating and Corporate Governance Committee Member

Peter S. O'Neill

Chairman
PON, LLC
Compensation Committee Member
Nominating and Corporate Governance Committee Chair

Richard G. Reiten

Chairman
Northwest Natural Gas
Finance Committee Chair

Norman R. Walker

Chief Financial Officer
Diocese of Bridgeport in Connecticut
Audit Committee Member
Nominating and Corporate Governance Committee Member

OFFICERS

(as of March 2007)

Robert E. Mellor

Chairman, President and Chief Executive Officer

William M. Smartt

Senior Vice President and Chief Financial Officer

Michael D. Mahre

Senior Vice President, Corporate Development; President and Chief Executive Officer, SelectBuild Construction, Inc.

Stanley M. Wilson

Senior Vice President; President and Chief Executive Officer, BMC West Corporation

Eric R. Beem

Vice President and Controller

Mark R. Kailer

Vice President, Treasurer and Investor Relations Officer

Jeffrey F. Lucchesi

Senior Vice President and Chief Information Officer

Steven H. Pearson

Senior Vice President, Human Resources

Paul S. Street

Senior Vice President, Chief Administrative Officer, General Counsel and Corporate Secretary

John D. Fa

Vice President, Real Estate

Hank L. Fitchett

Vice President, Infrastructure Services

Terrill F. Rust

Vice President, Application Services

Richard M. Giesbrecht

Assistant Controller and Senior Director of Accounting

Lesa D. Thomas

Assistant Corporate Secretary



BMHC

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