FLETCHER BUILDING INDUSTRIES LIMITED

Annual Report 2011

This report is dated 16 September 2011 and is signed on behalf of the board of Fletcher Building Industries Limited by:

Ralph Waters
Chairman of Directors

Jonathan Ling
Managing Director

Letter from the Chairman.

I am pleased to present the annual report of Fletcher Building Industries Limited for the year ended 30 June 2011.

Fletcher Building Industries Limited (previously Fletcher Building Finance Limited) (the Company) 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 2011, a copy of which has previously been sent to you, and the Fletcher Building 2011 annual report which can be viewed at **fletcherbuilding.com**.

Results for the period

Net earnings after tax for the year to 30 June 2011 were $1.1 million (2010: $9.4 million). Shareholders' funds increased to $87.2 million from $85.9 million at 30 June 2010.

Business activities

Fletcher Building Industries has issued capital notes and those funds have been invested in other Fletcher Building group companies.

In August 2010, the company announced a restructuring whereby it maintained its status as an issuer of capital notes but ceased to on-lend to companies within the Fletcher Building group. Instead, it became a holding company, purchasing 20 percent of the shares in Fletcher Building Holdings Limited which currently holds most of the shares in Fletcher Building's New Zealand subsidiaries.

Without this change in investments, the company would have been regarded as a non-bank deposit taker by the Reserve Bank of New Zealand and become subject to the ongoing requirements of The Reserve Bank of New Zealand Act 1989.

Consolidation of capital notes programmes

At the same time, the company changed its name to Fletcher Building Industries Limited to reflect this new business.

In March 2011 at a specially convened meeting, Fletcher Building Limited capital noteholders, who held $250 million of capital notes issued by that company, agreed to transfer Fletcher Building's obligations as issuer of those capital notes to Fletcher Building Industries.

This rationalised the two capital note programmes under one issuer simplifying the group's publicly listed debt securities, resulting in greater clarity in the market and administrative and other cost savings.

The rationalisation also meant that Fletcher Building Industries replaced Fletcher Building as the issuer. However, the specific terms of the Fletcher Building capital notes relating to rights on conversion, election dates, interest rates and interest payment dates all remained the same. Fletcher Building became liable as guarantor of the transferred capital notes on an unsecured subordinated basis. All capital notes, whether originally issued by Fletcher Building or by Fletcher Building Industries, rank equally in any claim against Fletcher Building.

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 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 to by management. In addition, the corporate governance procedures include:

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

The 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 Industries to act in the best interests of the parent company. The effect of the waiver is that Fletcher Building Industries 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 Industries 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. Kerrin Vautier retired from the boards of Fletcher Building Industries and Fletcher Building on 31 August 2011. An additional director will be appointed in due course.

The financial position of the company is dependent on that of Fletcher Building. Further information on the operations and performance of Fletcher Building is available on its website, **fletcherbuilding.com**, and I recommend that you take the opportunity to review it.

Ralph Waters
Chairman of Directors

Statements of earnings, comprehensive income and movements in equity.

Earnings statement

For the year ended 30 June 2011

	Notes	Fletcher Building Industries Group		Fletcher Building Industries	
		Year ended June 2011 NZ$	Year ended June 2010 NZ$	Year ended June 2011 NZ$	Year ended June 2010 NZ$
Investment income	2		34,113,727		34,113,727
Foreign exchange			3,008,022		3,008,022
Share of profits of associate	6	**29,685,424**			
Funding costs	3	**(40,766,050)**	(24,963,454)	(40,766,050)	(24,963,454)
(Loss)/earnings before taxation		**(11,080,626)**	12,158,295	(40,766,050)	12,158,295
Taxation benefit/(expense)	4	**12,229,815**	(2,745,082)	12,229,815	(2,745,082)
Net earnings/(loss)		**1,149,189**	9,413,213	(28,536,235)	9,413,213

Statement of comprehensive income

For the year ended 30 June 2011

	Notes	Fletcher Building Industries Group		Fletcher Building Industries	
		Year ended June 2011 NZ$	Year ended June 2010 NZ$	Year ended June 2011 NZ$	Year ended June 2010 NZ$
Net earnings/(loss)	8	**1,149,189**	9,413,213	(28,536,235)	9,413,213
Share of associate's other comprehensive income	8	**196,388**			
Movement in currency translation reserve	8		(3,008,022)		(3,008,022)
Total comprehensive income		**1,345,577**	6,405,191	(28,536,235)	6,405,191

Statement of movements in equity

For the year ended 30 June 2011

	Fletcher Building Industries Group		Fletcher Building Industries	
	Year ended June 2011 NZ$	Year ended June 2010 NZ$	Year ended June 2011 NZ$	Year ended June 2010 NZ$
Total equity				
At the beginning of the year	**85,894,641**	79,489,450	85,894,641	79,489,450
Total comprehensive income	**1,345,577**	6,405,191	(28,536,235)	6,405,191
Total equity	**87,240,218**	85,894,641	57,358,406	85,894,641

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

Balance sheet.

Balance sheet
As at 30 June 2011

		Fletcher Building Industries Group		Fletcher Building Industries	
	Notes	Year ended June 2011 NZ$	Year ended June 2010 NZ$	Year ended June 2011 NZ$	Year ended June 2010 NZ$
Assets					
Current assets:					
Debtors and prepayments		**2,200,845**	3,587,613	2,200,845	3,587,613
Provision for current taxation	10	**12,229,815**		12,229,815	
Total current assets		**14,430,660**	3,587,613	14,430,660	3,587,613
Non current assets:					
Amounts owing by related companies	15		322,856,410		322,856,410
Investment in associate	6	**713,881,812**		684,000,000	
Total non current assets		**713,881,812**	322,856,410	684,000,000	322,856,410
Total assets		**728,312,472**	326,444,023	698,430,660	326,444,023
Liabilities					
Current liabilities:					
Accrued interest		**10,077,352**	3,774,800	10,077,352	3,774,800
Provision for current taxation	10		2,745,082		2,745,082
Amounts owing to related companies	15	**99,674,902**		99,674,902	
Capital notes	11	**88,579,500**		88,579,500	
Total current liabilities		**198,331,754**	6,519,882	198,331,754	6,519,882
Non current liabilities:					
Capital notes	11	**442,740,500**	234,029,500	442,740,500	234,029,500
Total non current liabilities		**442,740,500**	234,029,500	442,740,500	234,029,500
Total liabilities		**641,072,254**	240,549,382	641,072,254	240,549,382
Equity					
Reported capital	7	**205,000,000**	205,000,000	205,000,000	205,000,000
Reserves	9	**(117,759,782)**	(119,105,359)	(147,641,594)	(119,105,359)
Total equity		**87,240,218**	85,894,641	57,358,406	85,894,641
Total liabilities and equity		**728,312,472**	326,444,023	698,430,660	326,444,023

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

On behalf of the Board
17 August 2011

Ralph Waters
Chairman of Directors

Jonathan Ling
Managing Director

Statement of cashflows and reconciliation of net earnings/(loss) to net cash from operating activities.

Statement of cashflows

For the year ended 30 June 2011

	Fletcher Building Industries Group		Fletcher Building Industries	
	Year ended June 2011 NZ$	Year ended June 2010 NZ$	Year ended June 2011 NZ$	Year ended June 2010 NZ$
Cashflow from operating activities:				
Revenue received		34,113,727		34,113,727
Payments to suppliers, employees and other	**1,386,768**	1,303,674	1,386,768	1,303,674
Interest paid	**(34,463,498)**	(26,666,287)	(34,463,498)	(26,666,287)
Net cash from operating activities	**(33,076,730)**	8,751,114	(33,076,730)	8,751,114
Cashflow from investing activities:				
Purchase of investments	**(684,000,000)**		(684,000,000)	
Net cash from investing activities	**(684,000,000)**		(684,000,000)	
Cashflow from financing activities:				
Advances from related companies	**419,786,230**	38,539,386	419,786,230	38,539,386
Sale/(purchase) of capital notes	**297,290,500**	(47,290,500)	297,290,500	(47,290,500)
Net cash from financing activities	**717,076,730**	(8,751,114)	717,076,730	(8,751,114)
Net movement in cash held				
Add opening cash and liquid deposits				
Closing cash and liquid deposits				

Reconciliation of net earnings/(loss) to net cash from operating activities

For the year ended 30 June 2011

	Fletcher Building Industries Group		Fletcher Building Industries	
	Year ended June 2011 NZ$	Year ended June 2010 NZ$	Year ended June 2011 NZ$	Year ended June 2010 NZ$
Cash was received from net earnings/(loss)	**1,149,189**	9,413,213	(28,536,235)	9,413,213
Adjustment for items not involving cash:				
Share of profits from associate	**(29,685,424)**			
Taxation	**(12,229,815)**	2,745,082	(12,229,815)	2,745,082
Prepayments	**1,386,768**	1,303,674	1,386,768	1,303,674
Trade creditors and accruals	**6,302,552**	(1,702,833)	6,302,552	(1,702,833)
Foreign exchange		(3,008,022)		(3,008,022)
Net cash from operating activities	**(33,076,730)**	8,751,114	(33,076,730)	8,751,114

Statement of accounting policies.

For the year ended 30 June 2011

Basis of presentation

The financial statements presented are those of Fletcher Building Industries Limited (previously Fletcher Building Finance Limited) (the company) and the company and its associate (together, the 'group'). Fletcher Building Industries 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 Industries Limited is a profit oriented entity.

The financial statements, of both the company and group, comprise the earnings statement, statement of comprehensive income, 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.

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

Associates

Associates are all entities over which the company has significant influence but not control, generally accompanying a shareholding of between 20 percent and 50 percent of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss.

The group's share of its associates' post-acquisition profits or losses is recognised in the earnings statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the group and its associates are eliminated to the extent of the group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the associate are consistent with the policies adopted by the group. Dilution gains and losses arising in investments in associates are recognised in the earnings statement.

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.

Foreign currency

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.

Statement of accounting policies continued.

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 and group policy specifically prohibits the use of derivative financial instruments for trading or speculative purposes. All the company and 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 and 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 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 cash flow 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 and 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 unless recovery is considered probable.

Borrowings
Interest bearing borrowings are initially recognised at fair value.

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

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

Intercompany guarantees
Where the company or group enters into financial guarantee contracts to guarantee the performance or indebtedness of other companies within the Fletcher Building Limited 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.

Notes to the financial statements.

1 **Changes in accounting policies**

The International Accounting Standards Board has issued a number of standards, amendments and interpretations which are not yet effective. The company has not applied these in preparing these financial statements and while 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 changes in accounting policy in the year ended 30 June 2011, however certain comparatives were restated to conform with the current year's presentation.

	Fletcher Building Industries Group		Fletcher Building Industries	
	Year ended June 2011 NZ$	Year ended June 2010 NZ$	Year ended June 2011 NZ$	Year ended June 2010 NZ$
2 Investment income				
Investment income includes interest received from related companies:				
Fletcher Building Limited		34,113,727		34,113,727
		34,113,727		34,113,727
3 Funding costs				
Interest payable on:				
Capital notes interest	**27,570,747**	24,197,288	27,570,747	24,197,288
Amounts owing to Fletcher Building Limited	**12,439,962**		12,439,962	
Plus bank fees, share registry and issue expenses	**755,341**	766,166	755,341	766,166
	40,766,050	24,963,454	40,766,050	24,963,454
4 Taxation benefit/(expense)				
(Loss)/earnings before taxation	**(11,080,626)**	12,158,295	(40,766,050)	12,158,295
Taxation at 30 cents per dollar	**3,324,188**	(3,647,489)	12,229,815	(3,647,489)
Adjusted for:				
Non assessable income	**8,905,627**	902,407		902,407
	12,229,815	(2,745,082)	12,229,815	(2,745,082)

5 **Change in nature of operations and acquisitions**

From 27 August 2010 Fletcher Building Industries Limited ceased to on-lend to companies within the Fletcher Building Group. Instead, the company became a holding company and purchased 20 percent of the shares in Fletcher Building Holdings Limited for $684 million. The company is accounting for this investment in its own accounts at cost, and in its group accounts using the equity method (Refer Note 6). Fletcher Building Holdings Limited is incorporated in New Zealand, is an unlisted corporate holding company and currently holds most of the shares in Fletcher Building Limited's New Zealand subsidiaries.

Notes to the financial statements continued.

	Fletcher Building Industries Group		Fletcher Building Industries	
	Year ended June 2011 NZ$	Year ended June 2010 NZ$	Year ended June 2011 NZ$	Year ended June 2010 NZ$
6 Investment in associate				
Carrying amount of associate				
Carrying amount at the beginning of the year				
Acquired during the year	**684,000,000**		684,000,000	
Equity accounted earnings of associate	**29,685,424**			
Share of associate's other comprehensive income	**196,388**			
Investment in associate	**713,881,812**		684,000,000	
Associate information:				
Balance sheet information for associate – 100%				
Assets	**5,210,151,753**			
Liabilities	**(2,280,058,071)**			
Minority Interest	**(2,245,738)**			
Equity	**2,927,847,944**			
Equity – Fletcher Building Industries Limited share –20%	**585,569,589**			
Goodwill acquired at cost	**128,312,223**			
Investment in associate	**713,881,812**			
Equity accounted earnings comprise:				
Summarised earnings statement for associate – 100%				
Sales	**3,330,930,931**			
Earnings before interest and tax	**230,126,331**			
Interest expense	**(31,700,654)**			
Foreign exchange loss	**(23,167,098)**			
Earnings before tax	**175,258,579**			
Tax expense	**(26,831,459)**			
Net earnings	**148,427,120**			
Net earnings – Fletcher Building Industries Limited share – 20%	**29,685,424**			
7 Capital				
Reported capital:				
Reported capital at the beginning of the year	**205,000,000**	205,000,000	205,000,000	205,000,000
	205,000,000	205,000,000	205,000,000	205,000,000
Number of shares:				
Number of shares at the beginning of the year	**205,000,000**	205,000,000	205,000,000	205,000,000
	205,000,000	205,000,000	205,000,000	205,000,000

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

		Fletcher Building Industries Group		Fletcher Building Industries	
		Year ended June 2011 NZ$	Year ended June 2010 NZ$	Year ended June 2011 NZ$	Year ended June 2010 NZ$
8	**Reserve movements**				
	Revenue reserve				
	Revenue reserve at the beginning of the year	**(119,105,359)**	(128,518,572)	(119,105,359)	(128,518,572)
	Net earnings/(loss)	**1,149,189**	9,413,213	(28,536,235)	9,413,213
	Other comprehensive income	**196,388**			
		(117,759,782)	(119,105,359)	(147,641,594)	(119,105,359)
	Net currency translation reserve				
	Net currency translation reserve at the beginning of the year		3,008,022		3,008,022
	Transfer to earnings statement		(3,008,022)		(3,008,022)
9	**Reserve balances**				
	Reserves comprise:				
	Revenue reserve	**(117,759,782)**	(119,105,359)	(147,641,594)	(119,105,359)
		(117,759,782)	(119,105,359)	(147,641,594)	(119,105,359)
10	**Provision for current taxation**				
	Opening provision for taxation	**(2,745,082)**	(1,229,041)	(2,745,082)	(1,229,041)
	Taxation credit/(charge) in the earnings statement	**12,229,815**	(2,745,082)	12,229,815	(2,745,082)
	Intercompany payment to Fletcher Building Holdings Limited	**2,745,082**	1,229,041	2,745,082	1,229,041
		12,229,815	(2,745,082)	12,229,815	(2,745,082)
11	**Borrowings**				
	Capital notes	**88,579,500**		88,579,500	
	Amounts owing to related companies	**99,674,902**		99,674,902	
	Current borrowings	**188,254,402**		188,254,402	
	Capital notes	**442,740,500**	234,029,500	442,740,500	234,029,500
	Non current borrowings	**442,740,500**	234,029,500	442,740,500	234,029,500
		630,994,902	234,029,500	630,994,902	234,029,500

For further information about the terms of these loans, please refer to note 13.

Capital notes

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

Under the terms of the capital notes, non-payment of interest is not an act of default although unpaid interest is accrued and is interest bearing at the same rate as the principal of the capital notes. Each of the company and Fletcher Building Limited has covenanted not to pay dividends to its shareholders while interest that is due and payable on capital notes has not been paid. The weighted average interest rate on the capital notes is 8.51 percent (30 June 2010: 9.09 percent).

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 held at 30 June 2011 were to be converted to shares, 62.9 million (June 2010: 30.4 million) Fletcher Building Limited shares would be issued at the share price as at 30 June 2011, of $8.62 (June 2010: $7.85). In March 2011, NZ$250 million of Fletcher Building capital notes were consolidated into the company in order to rationalise the Fletcher Building Group's capital notes programme under one issuer and all the Treasury Stock held was sold to Fletcher Building Holdings Limited. At 30 June 2011 $90.6 million (June 2010: nil) of the capital notes on issue were held by Fletcher Buildings Holdings Limited as Treasury Stock. At 30 June 2010 the company held $47 million of its capital notes as Treasury Stock.

	Fletcher Building Industries Group	
	Year ended June 2011	Year ended June 2010
Net tangible asset backing per capital note issued as at 30 June 2011 (30 June 2010)	**1.16**	1.37

Amount owing to related companies
This unsecured floating rate advance is for no fixed term and is effectively at call.

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

13 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 Fletcher Building group's Board. The policy documents identify the risk and sets out the Fletcher Building 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 Fletcher Building group's businesses. Risk management is carried out by the Fletcher Building group's central treasury function, which ensures compliance with the risk management policies and procedures set by the board and enters into derivative financial instruments to assist in the management of the identified financial risks.

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.

The financial position of the company is dependent on that of Fletcher Building Limited, who has indicated their continued financial support.

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

(b) Liquidity risk
Liquidity risk is the risk that the company will encounter difficulty in meeting its financial commitments as they fall due. The Fletcher Building group manages the liquidity risk of the company by having a spread of maturity dates of the Fletcher Building group's debt facilities. Furthermore at 30 June 2011, the Fletcher Building group had $2,499 million of committed bank facilities of which $492 million were undrawn (June 2010: $2,349 million; $1,130 million).

The following maturity analysis table sets out the remaining contractual undiscounted cashflows, including estimated interest payments for non-derivative liabilities. Creditors and accruals are excluded from this analysis as they are not part of the company's assessment of liquidity risk.

	Fletcher Building Industries Group and Fletcher Building Industries June 2011				
	Contractual cashflows NZ$	Up to 1 year NZ$	1–2 years NZ$	2–5 years NZ$	Over 5 years NZ$
Capital Notes	**531,320,000**	**88,579,500**	**75,000,000**	**299,488,500**	**68,252,000**
Amounts owing to related companies	**99,674,902**	**99,674,902**			
Non-derivative liabilities – Principal cashflows	**630,994,902**	**188,254,402**	**75,000,000**	**299,488,500**	**68,252,000**
Contractual interest cashflows	**140,512,736**	**42,058,651**	**35,387,742**	**59,448,052**	**3,618,291**
Total contractual cashflows	**771,507,638**	**230,313,053**	**110,387,742**	**358,936,552**	**71,870,291**

	Fletcher Building Industries Group and Fletcher Building Industries June 2010				
	Contractual cashflows NZ$	Up to 1 year NZ$	1–2 years NZ$	2–5 years NZ$	Over 5 years NZ$
Capital Notes	234,029,500			186,857,000	47,172,500
Non-derivative liabilities – Principal cashflows	234,029,500			186,857,000	47,172,500
Contractual interest cashflows	79,898,098	20,616,286	20,616,286	35,252,083	3,413,443
Total contractual cashflows	313,927,598	20,616,286	20,616,286	222,109,083	50,585,943

(c) 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 Fletcher Building group manages the fixed interest rate component of its debt and capital notes obligations of the company and aims to maintain this ratio between 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.

The following tables set out the interest rate repricing profile of interest bearing financial assets and liabilities:

	Fletcher Building Industries Group and Fletcher Building Industries	
	Year ended June 2011 NZ$	Year ended June 2010 NZ$
Floating	**99,674,902**	(322,856,410)
Fixed up to 1 year	**88,579,500**	
Fixed 1–2 years	**75,000,000**	
Fixed 2–5 years	**299,488,500**	186,857,000
Fixed over 5 years	**68,252,000**	47,172,500
Total	**630,994,902**	(88,826,910)

(d) 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.

(e) 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:

		Fletcher Building Industries Group and Fletcher Building Industries June 2011		Fletcher Building Industries Group and Fletcher Building Industries June 2010	
	Classifications	Carrying value NZ$	Fair value NZ$	Carrying value NZ$	Fair value NZ$
Capital Notes	Amortised cost	**531,320,000**	**548,802,839**	234,029,500	243,807,252
Amounts owing to related companies	Loans & receivable	**99,674,902**	**99,674,902**		
Amounts owing by related companies	Loans & receivable			(322,856,410)	(322,856,410)
		630,994,902	**648,477,741**	(88,826,910)	(79,049,158)

Fair value measurement
No financial instruments are measured and recognised at fair value.

Fair value disclosures
The fair values of borrowings used for disclosure are measured by discounting future principal and interest cashflows at the current market interest rate that are available for similar financial instruments.

The interest rates across all currencies used to discount future principal and interest cashflows are between 5.76 percent and 7.65 percent (June 2010: 7.1 percent and 7.9 percent) including margins.

14 Contingent liabilities and capital commitments
There were no contingent liabilities or capital commitments as at 30 June 2011 (June 2010: Nil).

The Fletcher Building group borrows funds based on covenants and a negative pledge arrangement. The principal borrowing covenants relate to gearing and interest cover and at 30 June 2011, the Fletcher Building group was in compliance with all its covenants. The negative pledge arrangement includes a cross guarantee, ensures that external senior indebtedness ranks equally in all respects and includes the covenant that security can be given only in limited circumstances. The cross guarantee states that Fletcher Building Limited and certain of its subsidiaries, including Fletcher Building Industries Limited, guarantee the debt of the group that has the benefit of the negative pledge arrangement.

As at 30 June 2011 the guaranteeing group had debt subject to the negative pledge arrangement and covenants of $1,516 million (June 2010: $754 million).

Where the company enters into financial guarantee contracts to guarantee the performance or indebtedness of other companies within the Fletcher Building 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.

	Fletcher Building Industries Group		Fletcher Building Industries	
	Year ended June 2011 NZ$	Year ended June 2010 NZ$	Year ended June 2011 NZ$	Year ended June 2010 NZ$
15 Related party transactions				
Term receivable owing from related companies				
Fletcher Building Limited [1]		322,856,410		322,856,410
		322,856,410		322,856,410
Payable owing to related companies				
Fletcher Building Limited [2]	**(99,674,902)**		**(99,674,902)**	
	(99,674,902)		**(99,674,902)**	

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.

[1] This unsecured advance in the prior year represented long term funding even though it was for no fixed term and bore interest at 9.75 percent until it was repaid in August 2010.

[2] This unsecured advance is for no fixed term and bears interest at 7.5 percent.

The audit fee is borne by the company's parent.

Independent auditor's report.

TO THE SHAREHOLDERS OF FLETCHER BUILDING INDUSTRIES LIMITED

Report on the company and group financial statements

We have audited the accompanying financial statements of Fletcher Building Industries Limited ("the company") and the group, comprising the company and its associate, on pages 2–13. The financial statements comprise the balance sheets as at 30 June 2011, the earnings statements and statements of comprehensive income, movements in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, for both the company and the group.

Directors' responsibility for the company and group financial statements

The directors are responsible for the preparation of company and group financial statements in accordance with generally accepted accounting practice in New Zealand that give a true and fair view of the matters to which they relate, and for such internal control as the directors determine is necessary to enable the preparation of company and group financial statements that are free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these company and group financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the company and group financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the company and group financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company and group's preparation of the financial statements that give a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company and group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Our firm has also provided other services to the company and group in relation to taxation and other assurance services. Partners and employees of our firm may also deal with the company and group on normal terms within the ordinary course of trading activities of the business of the company and group. These matters have not impaired our independence as auditors of the company and group. The firm has no other relationship with, or interest in, the company and group.

Opinion

In our opinion the financial statements, on pages 2–13:

- comply with generally accepted accounting practice in New Zealand;
- give a true and fair view of the financial position of the company and the group as at 30 June 2011 and of the financial performance and cash flows of the company and the group for the year then ended.

Report on other legal and regulatory requirements

In accordance with the requirements of sections 16(l)(d) and 16(l)(e) of the Financial Reporting Act 1993, we report that:

- we have obtained all the information and explanations that we have required; and
- in our opinion, proper accounting records have been kept by Fletcher Building Industries Limited as far as appears from our examination of those records.

KPMG

17 August 2011
KPMG Auckland, New Zealand

Noteholder information.

Enquiries

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

Computershare Investor Services Limited
Private Bag 92119
Victoria Street West
Auckland 1142

Level 2, 159 Hurstmere Road
Takapuna, North Shore City 0622
New Zealand
T. +64 9 488 8777
F. +64 9 488 8787
E. enquiry@computershare.co.nz

Other investor enquiries

Fletcher Building Industries Limited
Private Bag 92114
Victoria Street West
Auckland 1142
New Zealand
T. +64 9 525 9000
F. +64 9 525 9032
E. moreinfo@fb.co.nz

fletcherbuilding.com

Interest payment dates

Interest on capital notes is paid semi-annually on 15 March and 15 September in respect of the notes with the election dates of 15 March 2012, 15 March 2013, 15 March 2015 and 15 March 2017 and on 15 May and 15 November in respect of the notes with the election dates of 15 May 2014 and 15 May 2016. The company recommends that all noteholders have their interest payments direct credited to a 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 Industries capital notes are quoted on the NZX 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 $2,000. Subject to this minimum holding, transfers must be in multiples of $500.

Fletcher Building website

Details on Fletcher Building and its operations for the year ended 30 June 2011 can be viewed at the Fletcher Building website, at **fletcherbuilding.com**.

This website contains all news releases to the NZX and ASX 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.

Directory.

Directors

Ralph G Waters
Chairman

Tony J Carter

Hugh A Fletcher
Member of the Audit Committee

Alan T Jackson

John F Judge
Chairman of the Audit Committee

Jonathan P Ling

Gene T Tilbrook
Member of the Audit Committee

Management

Martin C Farrell
Company Secretary

Bill J Roest
Chief Financial Officer

Registered offices

Fletcher Building Industries Limited
Private Bag 92 114
Victoria St West
Auckland 1142
New Zealand

Fletcher House
810 Great South Road
Penrose, Auckland 1061
New Zealand
T. +64 9 525 9000

Trustee

The capital notes are constituted under Trust Deeds dated 24 September 2001 and 12 November 2002 as supplemented by supplemental trust deeds dated 21 November 2008 and 16 March 2009. Noteholders are entitled to the benefit of, are bound by, and are deemed to have notice of the provisions of the Trust Deeds.

The Trustee is:
Perpetual Trust Limited
PO Box 3376
Shortland Street
Auckland 1140
New Zealand

Level 12, AMP Centre
29 Customs Street West
Auckland 1010
New Zealand
T. +64 9 366 3290

Fletcher Building Industries Limited

fletcherbuilding.com
+64 9 525 9000