



FLETCHER BUILDING INDUSTRIES LIMITED

Annual Report 2012

This report is dated 18 September 2012
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.

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Letter from the Chairman.

I am pleased to present the annual report of Fletcher Building Industries Limited for the year ended 30 June 2012.

Fletcher Building Industries 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 2012, a copy of which has previously been sent to you, and the Fletcher Building 2012 annual report which can be viewed at fletcherbuilding.com.

Results for the year

Net earnings after tax for the year to 30 June 2012 were \$11.8 million (2011: \$1.1 million). Shareholders' funds increased to \$239.9 million from \$87.2 million at 30 June 2011 mainly as a result of additional capital of \$141 million being subscribed by Fletcher Building.

Business activities

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

On 30 June 2012, a reorganisation within the Fletcher Building group resulted in the company continuing to own a 20 percent share of the New Zealand operating subsidiaries via a new holding company Fletcher Building Holdings New Zealand Limited. That company currently holds all of the shares in Fletcher Building's New Zealand operating subsidiaries.

Since balance date, the board of the company has introduced a policy whereby funds shall be retained which are sufficient to meet one full year's interest payments on the capital notes. As a result, on 22 August 2012, a dividend of \$40 million was paid to 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 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 and risk, remuneration and nominations 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 and risk committee will have the same constituency, chairmanship and charter as Fletcher Building's committee.

The directors of the company believe that these initiatives, combined with the overarching governance procedures of Fletcher Building, provide an appropriate basis for ensuring the company meets its fiduciary obligations to the capital noteholders. Consistent with the governance principles, Cecilia Tarrant and Kate Spargo, who are both directors of Fletcher Building, joined the board of Fletcher Building Industries on 10 October 2011 and 1 March 2012 respectively. Hugh Fletcher and Jonathan Ling retire from the board on 30 September 2012 with Mr Ling being replaced by Mark Adamson, the new chief executive officer of Fletcher Building, on 1 October 2012.

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 2012

	Notes	Fletcher Building Industries Group		Fletcher Building Industries	
		Year ended June 2012 NZ\$000	Year ended June 2011 NZ\$000	Year ended June 2012 NZ\$000	Year ended June 2011 NZ\$000
Share of profits of associate	6	14,775	29,685		
Other income/expenses	2	49,411		93,959	
Operating earnings		64,186	29,685	93,959	
Funding costs	3	(52,532)	(40,766)	(52,532)	(40,766)
Earnings/(loss) before taxation		11,654	(11,081)	41,427	(40,766)
Taxation benefit/(expense)	4	149	12,230	149	12,230
Net earnings/(loss)		11,803	1,149	41,576	(28,536)

Statement of comprehensive income

For the year ended 30 June 2012

	Notes	Fletcher Building Industries Group		Fletcher Building Industries	
		Year ended June 2012 NZ\$000	Year ended June 2011 NZ\$000	Year ended June 2012 NZ\$000	Year ended June 2011 NZ\$000
Net earnings/(loss)	8	11,803	1,149	41,576	(28,536)
Share of associate's other comprehensive income	8	(108)	196		
Total comprehensive income		11,695	1,345	41,576	(28,536)

Statement of movements in equity

For the year ended 30 June 2012

	Notes	Fletcher Building Industries Group		Fletcher Building Industries	
		Year ended June 2012 NZ\$000	Year ended June 2011 NZ\$000	Year ended June 2012 NZ\$000	Year ended June 2011 NZ\$000
Total equity					
At the beginning of the year		87,240	85,895	57,359	85,895
Issue of share capital	7	141,000		141,000	
Total comprehensive income		11,695	1,345	41,576	(28,536)
Total equity		239,935	87,240	239,935	57,359

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 2012

	Notes	Fletcher Building Industries Group		Fletcher Building Industries	
		June 2012 NZ\$000	June 2011 NZ\$000	June 2012 NZ\$000	June 2011 NZ\$000
Assets					
Current assets:					
Debtors and prepayments		1,107	2,201	1,107	2,201
Current taxation asset	10	149	12,230	149	12,230
Total current assets		1,256	14,431	1,256	14,431
Non current assets:					
Amounts owing by related companies	15	148,084		148,084	
Investment in associate	6	693,277	713,881	693,277	684,000
Total non current assets		841,361	713,881	841,361	684,000
Total assets		842,617	728,312	842,617	698,431
Liabilities					
Current liabilities:					
Accrued interest		11,085	10,077	11,085	10,077
Amounts owing to related companies	15	60,277	99,675	60,277	99,675
Capital notes	11	75,000	88,580	75,000	88,580
Total current liabilities		146,362	198,332	146,362	198,332
Non current liabilities:					
Capital notes	11	456,320	442,740	456,320	442,740
Total non current liabilities		456,320	442,740	456,320	442,740
Total liabilities		602,682	641,072	602,682	641,072
Equity					
Reported capital	7	346,000	205,000	346,000	205,000
Reserves	9	(106,065)	(117,760)	(106,065)	(147,641)
Total equity		239,935	87,240	239,935	57,359
Total liabilities and equity		842,617	728,312	842,617	698,431

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

On behalf of the board
22 August 2012



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 2012

	Fletcher Building Industries Group		Fletcher Building Industries	
	Year ended June 2012 NZ\$000	Year ended June 2011 NZ\$000	Year ended June 2012 NZ\$000	Year ended June 2011 NZ\$000
Cashflow from operating activities:				
Prepayments	1,094	1,387	1,094	1,387
Dividend received	92,959		92,959	
Subvention payment received	52,000		52,000	
Interest paid	(51,524)	(34,463)	(51,524)	(34,463)
Net cash from operating activities	94,529	(33,076)	94,529	(33,076)
Cashflow from investing activities:				
Purchase of investments	(693,277)	(684,000)	(693,277)	(684,000)
Sale of investments	633,000		633,000	
Net cash from investing activities	(60,277)	(684,000)	(60,277)	(684,000)
Cashflow from financing activities:				
Advances from related companies	(175,252)	419,786	(175,252)	419,786
Issue of shares	141,000		141,000	
Issue/(purchase) of capital notes		297,290		297,290
Net cash from financing activities	(34,252)	717,076	(34,252)	717,076
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 2012

	Fletcher Building Industries Group		Fletcher Building Industries	
	Year ended June 2012 NZ\$000	Year ended June 2011 NZ\$000	Year ended June 2012 NZ\$000	Year ended June 2011 NZ\$000
Cash was received from net earnings/(loss)	11,803	1,149	41,576	(28,536)
Adjustment for items not involving cash and other items:				
Share of profits from associate	(14,775)	(29,685)		
Loss on sale of associate	2,589		51,000	
Dividend received from associate	92,959			
Taxation	(149)	(12,230)	(149)	(12,230)
Prepayments	1,094	1,387	1,094	1,387
Trade creditors and accruals	1,008	6,303	1,008	6,303
Net cash from operating activities	94,529	(33,076)	94,529	(33,076)

Statement of accounting policies.

For the year ended 30 June 2012

Basis of presentation

The financial statements presented are those of Fletcher Building Industries 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.

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.

Statement of accounting policies continued.

Valuation of liabilities

Derivative financial instruments

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.

Valuation of liabilities

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 2012, however certain comparatives were restated to conform with the current year's presentation.

	Fletcher Building Industries Group		Fletcher Building Industries	
	Year ended June 2012 NZ\$000	Year ended June 2011 NZ\$000	Year ended June 2012 NZ\$000	Year ended June 2011 NZ\$000
2 Other income				
Subvention payment received	52,000		52,000	
Dividend received from associate			92,959	
Gain/(loss) on sale of associate	(2,589)		(51,000)	
	49,411		93,959	
3 Funding costs				
Interest payable on:				
Capital notes interest	44,172	27,571	44,172	27,571
Amounts owing to Fletcher Building Limited	7,648	12,440	7,648	12,440
Plus bank fees, share registry and issue expenses	712	755	712	755
	52,532	40,766	52,532	40,766
4 Taxation benefit/(expense)				
Earnings/(loss) before taxation	11,654	(11,081)	41,427	(40,766)
Taxation at 28 (2011: 30) cents per dollar	(3,263)	3,324	(11,600)	12,230
Adjusted for:				
Non assessable income	3,412	8,906	11,749	
	149	12,230	149	12,230

5 Change in nature of operations and acquisitions

At 30 June 2012 the Fletcher Building group did an internal reorganisation, the outcome of which has resulted in the company continuing to own a share of the New Zealand operating subsidiaries, via a new holding company Fletcher Building Holdings New Zealand Limited. The company will continue to account for this investment in its own accounts at cost, and in its group accounts using the equity method (refer note 6). Fletcher Building Holdings New Zealand Limited is incorporated in New Zealand, is an unlisted corporate holding company and currently holds all of the shares in Fletcher Building Limited's New Zealand operating subsidiaries.

Notes to the financial statements continued.

	Fletcher Building Industries Group		Fletcher Building Industries	
	Year ended June 2012 NZ\$000	Year ended June 2011 NZ\$000	Year ended June 2012 NZ\$000	Year ended June 2011 NZ\$000
6 Investment in associate				
Carrying amount of associate – Fletcher Building Holdings Group				
Carrying amount at the beginning of the year	713,881			
Acquired during the year		684,000	684,000	684,000
Equity accounted earnings of associate	14,775	29,685		
Dividend received from associate	(92,959)			
Sale of investment in associate	(633,000)		(633,000)	
Loss on sale of associate	(2,589)		(51,000)	
Share of associate's other comprehensive income	(108)	196		
Investment in associate		713,881		684,000
Associate information – Fletcher Building Holdings Group:				
Balance sheet information for associate – 100%				
External assets		2,233,364		
External current liabilities		(626,533)		
Borrowings		(1,432,537)		
Intercompany advances		2,755,800		
Minority interest		(2,246)		
Equity		2,927,848		
Equity – Fletcher Building Industries Limited share – 20%		585,569		
Goodwill acquired at cost		128,312		
Investment in associate		713,881		
Equity accounted earnings for Fletcher Building Holdings Group comprise:				
Summarised earnings statement for associate – 100%				
Sales	3,249,048	3,330,931		
Earnings before interest and tax	170,692	230,126		
Interest expense	(45,251)	(31,701)		
Subvention payment	(52,000)			
Foreign exchange gain/(loss)	1,166	(23,167)		
Earnings before tax	74,607	175,258		
Tax expense	(733)	(26,831)		
Net earnings	73,874	148,427		
Net earnings – Fletcher Building Industries Limited share – 20%	14,775	29,685		

	Fletcher Building Industries Group		Fletcher Building Industries	
	Year ended June 2012 NZ\$000	Year ended June 2011 NZ\$000	Year ended June 2012 NZ\$000	Year ended June 2011 NZ\$000
Carrying amount of associate – Fletcher Building Holdings				
New Zealand Group				
Acquired during the year	693,277		693,277	
Equity accounted earnings of associate				
Investment in associate	693,277		693,277	
Associate information – Fletcher Building Holdings				
New Zealand Group				
Balance sheet information for associate – 100%				
External assets	2,417,340			
External current liabilities	(722,552)			
Intercompany advances	197,618			
Minority interest	(26,882)			
Equity	1,865,524			
Equity – Fletcher Building Industries Limited share – 20%	373,105			
Goodwill acquired at cost	320,172			
Investment in associate	693,277			
7 Capital				
Reported capital:				
Reported capital at the beginning of the year	205,000	205,000	205,000	205,000
Issue of shares	141,000		141,000	
	346,000	205,000	346,000	205,000
Number of shares:				
Number of shares at the beginning of the year	205,000	205,000	205,000	205,000
Issue of shares	141,000		141,000	
	346,000	205,000	346,000	205,000
All ordinary shares carry are issued and fully paid, and carry equal rights in respect of voting, dividend payments and distribution upon winding up.				
8 Reserve movements				
Revenue reserve				
Revenue reserve at the beginning of the year	(117,760)	(119,105)	(147,641)	(119,105)
Net earnings/(loss)	11,803	1,149	41,576	(28,536)
Other comprehensive income	(108)	196		
	(106,065)	(117,760)	(106,065)	(147,641)

Notes to the financial statements continued.

	Fletcher Building Industries Group		Fletcher Building Industries	
	June 2012 NZ\$000	June 2011 NZ\$000	June 2012 NZ\$000	June 2011 NZ\$000
9 Reserve balances				
Reserves comprise:				
Revenue reserve	(106,065)	(117,760)	(106,065)	(147,641)
	(106,065)	(117,760)	(106,065)	(147,641)
10 Current taxation asset				
Opening asset for taxation	12,230	(2,745)	12,230	2,745
Taxation (charge)/credit in the earnings statement	149	12,230	149	12,230
Intercompany payment/(receipt) to/from Fletcher Building Holdings Limited	(12,230)	2,745	(12,230)	(2,745)
	149	12,230	149	12,230
11 Capital notes				
Capital notes	75,000	88,580	75,000	88,580
Current portion	75,000	88,580	75,000	88,580
Capital notes	456,320	442,740	456,320	442,740
Non current portion	456,320	442,740	456,320	442,740
	531,320	531,320	531,320	531,320

Capital notes

Capital notes are long-term fixed rate unsecured subordinated debt instruments. 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 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. The company and Fletcher Building Limited have 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 8.23 percent (June 2011: 8.51 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 2012 were to be converted to shares, 92.4 million (June 2011: 62.9 million) Fletcher Building Limited shares would be issued at the share price as at 30 June 2012, of \$5.87 (June 2011: \$8.62).

At 30 June 2012 \$44.6 million (June 2011: 90.6 million) of capital notes were held by Fletcher Buildings Holdings Limited as treasury stock.

	Fletcher Building Industries Group	
	June 2012 NZ\$	June 2011 NZ\$
Net tangible asset backing per capital note issued	1.45	1.16

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.

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 2012, the Fletcher Building group had \$2,928 million of committed bank facilities of which \$782 million were undrawn (June 2011: \$2,499 million; \$492 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 2012					
	Contractual Cashflows NZ\$000	Up to 1 year NZ\$000	1-2 years NZ\$000	2-5 years NZ\$000	Over 5 years NZ\$000
Capital notes	531,320	75,000	111,857	255,883	88,580
Amounts owing to related companies	60,277	60,277			
Non-derivative liabilities – principal cashflows	591,597	135,277	111,857	255,883	88,580
Contractual interest cashflows	134,510	41,721	35,707	52,623	4,459
Total contractual cashflows	726,107	176,998	147,564	308,506	93,039

Fletcher Building Industries Group and Fletcher Building Industries June 2011					
	Contractual Cashflows NZ\$000	Up to 1 year NZ\$000	1-2 years NZ\$000	2-5 years NZ\$000	Over 5 years NZ\$000
Capital notes	531,320	88,580	75,000	299,488	68,252
Amounts owing to related companies	99,675	99,675			
Non-derivative liabilities – principal cashflows	630,995	188,255	75,000	299,488	68,252
Contractual interest cashflows	140,513	42,059	35,387	59,448	3,619
Total contractual cashflows	771,508	230,314	110,387	358,936	71,871

Notes to the financial statements continued.

(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 financial assets and liabilities:

	Fletcher Building Industries Group and Fletcher Building Industries	
	June 2012 NZ\$000	June 2011 NZ\$000
Floating – non interest bearing	60,277	
Floating		99,675
Fixed up to 1 year	75,000	88,580
Fixed 1-2 years	111,857	75,000
Fixed 2-5 years	255,883	299,488
Fixed over 5 years	88,580	68,252
Total	591,597	630,995

(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 2012		June 2011	
	Classifications	Carrying value NZ\$000	Fair value NZ\$000	Carrying value NZ\$000	Fair value NZ\$000
Capital notes	Amortised cost	531,320	559,899	531,320	548,803
Amounts owing to related companies	Loans and receivable	60,277	60,277	99,675	99,675
Amounts owing by related companies	Loans and receivable	148,084	148,084		
		739,681	768,260	630,995	648,478

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 5.71 percent and 6.18 percent (June 2011: 5.76 percent and 7.65 percent) including margins.

14 Contingent liabilities and capital commitments

There were no contingent liabilities or capital commitments as at 30 June 2012 (June 2011: 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 2012, 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 2012 the guaranteeing group had debt subject to the negative pledge arrangement and covenants of \$1,614 million (June 2011: \$1,516 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.

15 Related party transactions

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

	Fletcher Building Industries Group		Fletcher Building Industries	
	June 2012 NZ\$000	June 2011 NZ\$000	June 2012 NZ\$000	June 2011 NZ\$000
Term receivable owing from related companies				
Fletcher Building Limited ¹	148,084		148,084	
	148,084		148,084	
Term payable owing to related companies				
Fletcher Challenge Finance Investments Limited ²	(60,277)		(60,277)	
Fletcher Building Limited ¹		(99,675)		(99,675)
	(60,277)	(99,675)	(60,277)	(99,675)

¹ This unsecured advance is at call, but represents a long term asset and earns 7.5 percent interest. In the prior year the advance represented long term funding even though it was for no fixed term and bore interest at 7.5 percent.

² This unsecured advance is for no fixed term and is non interest bearing.

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

16 Subsequent events

On 22 August 2012 the company repaid its advance to Fletcher Challenge Finance Investments Limited of \$60.3 million and declared a dividend to Fletcher Building Limited of \$40.0 million. This reduced the net receivable balance to \$47.8 million. This balance will be available to fund the interest expense it will incur on the capital notes for the next year.

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 2012, the statements of earnings, 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. 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 2012 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(1)(d) and 16(1)(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.

22 August 2012
KPMG Auckland, New Zealand

Noteholder information.

Enquiries

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

Computershare Investor Services Limited

Private Bag 92 119
Auckland 1142

Level 2, 159 Hurstmere Road
Takapuna, Auckland 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 92 114
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 2013, 15 March 2015, 15 March 2017 and 15 March 2018, 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 2012 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 NZX 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 Waters
Chairman

Mark Adamson
Appointed with effect from 1 October 2012

Tony Carter

Hugh Fletcher
Member of the Audit and Risk Committee
Retiring 30 September 2012

Alan Jackson

John Judge
Chairman of the Audit and Risk Committee

Jonathan Ling
Retiring 30 September 2012

Kate Spargo
Member of the Audit and Risk Committee

Cecilia Tarrant
Member of the Audit and Risk Committee

Gene Tilbrook
Member of the Audit and Risk Committee

Management

Martin Farrell
Company Secretary and General Counsel

Bill Roest
Chief Financial Officer

Registered offices

Fletcher Building Industries Limited
Private Bag 92 114
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 a Trust Deed dated 12 November 2002 as supplemented by supplemental trust deeds dated 21 November 2008, 16 March 2009, 15 March 2012 and 27 August 2012. 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
Auckland 1140
New Zealand

Level 17, AMP Centre
29 Customs Street West
Auckland 1010
New Zealand
T. +64 9 366 3290

**Fletcher Building
Industries Limited**

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