Annual Report 2009

Fletcher Building Finance Limited

FletcherBuilding

This report is dated 8 September 2009 and is signed on behalf of the board of Fletcher Building Finance Limited by:

Roderick Deane
Chairman of Directors

Jonathan Ling
Managing Director

Letter from the Chairman

I am pleased to present the annual report of Fletcher Building Finance Limited for the year ended 30 June 2009.

Fletcher Building Finance 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 2009, a copy of which has previously been sent to you, and the Fletcher Building 2009 annual report which can be viewed at **fletcherbuilding.com/reports/09**.

The terms of issue for the Fletcher Building Finance capital notes provide that they are guaranteed on an unsecured subordinated basis and rank pari passu (equally) with other capital notes issued by Fletcher Building. To ensure that this equal ranking is retained, the company does not seek to maintain significant shareholders' funds over time, nor to be in deficit on shareholders' funds. The results of the company should be considered against this background.

Results for the period

Net earnings after tax for the year to 30 June 2009 were $2.9 million (2008: $4.0 million). Shareholders' funds increased to $79.5 million from $76.6 million at 30 June 2008.

Business activities

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

In late 2008 and early 2009, the company issued $131.3 million of new capital notes at an initial coupon interest rate of 9.00% per annum with the first interest reset on 15 May 2014 in respect of $111.8 million of notes and 15 May 2016 in respect of $19.5 million of notes.

The company previously maintained a foreign currency hedge transaction with Fletcher Building to minimise currency impacts on its earnings and financial position. However, this was cancelled in September 2008 as it was no longer required.

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 are wide ranging, and 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, 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 Finance to act in the best interests of the parent company. The effect of the waiver is that Fletcher Building Finance 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 Finance 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. Consistent with the governance principles, Alan Jackson and Gene Tilbrook, directors of Fletcher Building, joined the board of Fletcher Building Finance on 1 September 2009.

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

Roderick Deane

Roderick Deane
Chairman of Directors

Statements of earnings and movements in equity

Earnings statement

For the year ended 30 June 2009

		Fletcher Building Finance	
	NOTES	Year ended June 2009 NZ$	Year ended June 2008 NZ$
Investment income	2	24,483,580	56,377,959
Operating expenses			(201,967)
Operating earnings		24,483,580	56,175,992
Funding costs	3	(20,386,777)	(43,461,591)
Earnings before taxation		4,096,803	12,714,401
Taxation benefit/(expense)	4	(1,229,041)	(8,682,795)
Net earnings		**2,867,762**	**4,031,606**

Statement of movements in equity

For the year ended 30 June 2009

		Fletcher Building Finance	
	NOTES	Year ended June 2009 NZ$	Year ended June 2008 NZ$
Total equity			
At the beginning of the year		76,619,565	103,817,560
Net earnings for the year	6	2,867,762	4,031,606
Movement in currency translation reserve	6	2,123	(29,601)
Total recognised revenues and expenses for the year		2,869,885	4,002,005
Dividend paid to Fletcher Building Limited	6		(31,200,000)
Total equity		**79,489,450**	**76,619,565**

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

Balance sheet

As at 30 June 2009

		Fletcher Building Finance	
	NOTES	June 2009 NZ$	June 2008 NZ$
Assets			
Current assets:			
Cash and liquid deposits			896
Debtors			249,386
Provision for current taxation	8		41,775,227
Total current assets			42,025,509
Non current assets:			
Amounts owing by related companies	13	362,624,837	177,832,544
Total non current assets		362,624,837	177,832,544
Total assets		**362,624,837**	**219,858,053**
Liabilities			
Current liabilities:			
Accrued interest		5,477,633	3,722,485
Provision for current taxation	8	1,229,041	
Capital notes	9	75,000,000	
Total current liabilities		81,706,674	3,722,485
Non current liabilities:			
Capital notes	9	201,428,713	139,516,003
Total non current liabilities		201,428,713	139,516,003
Total liabilities		283,135,387	143,238,488
Equity			
Reported capital	5	205,000,000	205,000,000
Reserves	7	(125,510,550)	(128,380,435)
Total equity		79,489,450	76,619,565
Total liabilities and equity		**362,624,837**	**219,858,053**

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

On behalf of the Board
12 August 2009

Roderick Deane
Chairman of Directors

Jonathan Ling
Managing Director

Statements of cashflows and reconciliation of net earnings to net cash from operating activities

Statement of cashflows

For the year ended 30 June 2009

	Fletcher Building Finance	
	Year ended June 2009 NZ$	Year ended June 2008 NZ$
Cashflow from operating activities:		
Revenue received	24,483,580	56,377,959
Payments to suppliers, employees and other	(1,938,404)	(266,664)
Financial instruments		(37,697,326)
Interest paid	(18,631,629)	(45,551,840)
Taxes paid	17,015	(15,678,515)
Net cash from operating activities	**3,930,562**	**(42,816,386)**
Cashflow from financing activities:		
Advances from/(to) related companies	(143,031,958)	380,268,739
Issue/(purchase) of capital notes	139,100,500	(7,780,500)
Net debt drawdowns/(settlements)		(298,472,659)
Dividend paid to Fletcher Building Limited		(31,200,000)
Net cash from financing activities	**(3,931,458)**	**42,815,580**
Net movement in cash held	(896)	(806)
Add opening cash and liquid deposits	896	1,544
Effect of exchange rate changes on net cash		158
Closing cash and liquid deposits		**896**

Reconciliation of net earnings to net cash from operating activities

For the year ended 30 June 2009

	Fletcher Building Finance	
	Year ended June 2009 NZ$	Year ended June 2008 NZ$
Cash was received from net earnings	2,867,762	4,031,606
Adjustment for items not involving cash:		
Taxation	1,246,056	(6,995,720)
Prepayments	(1,938,404)	(2,090,249)
Trade creditors and accruals	1,755,148	(64,697)
Cash was (paid)/received on financial instruments		(37,697,326)
Net cash from operating activities	**3,930,562**	**(42,816,386)**

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

Statement of accounting policies

For the year ended 30 June 2009

Basis of presentation

The financial statements presented are those of Fletcher Building Finance Limited (the company). Fletcher Building Finance Limited is a company domiciled in New Zealand, is registered under the Companies Act 1993, and is an issuer in terms of the Securities Act 1978 and the Financial Reporting Act 1993. The registered office of the company is 810 Great South Road, Penrose, Auckland. The company is also registered in Australia as an overseas company under the Australian Corporations Act 2001. Fletcher Building Finance Limited is a profit oriented entity.

The financial statements comprise the earnings statement, statement of movements in equity, balance sheet, statement of cashflows, and significant accounting policies, as well as the notes to these financial statements.

Accounting convention

The financial statements are based on the general principles of historical cost accounting, except that financial assets and liabilities as described below are stated at their fair value. These financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand which is the New Zealand equivalent to International Financial Reporting Standards (NZ IFRS). They also comply with International Financial Reporting Standards.

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

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.

Cash

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

Foreign currency

Translation of the financial statements of foreign operations

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

Exchange differences

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

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

Net investments in foreign operations

Exchange differences arising from the translation of the net investment in foreign operations, and of related hedges are taken to the currency translation reserve and are released to earnings upon disposal.

Financial instruments

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

The fair value of derivative financial instruments, as disclosed in the financial instruments note, is estimated based on quoted market prices.

The company 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.

Statement of accounting policies

For the year ended 30 June 2009

Derivative financial instruments – continued
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.

Valuation of liabilities

Taxation
The provision for current tax is the estimated amount due for payment during the next 12 months by the company. 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, less any transaction costs, which are amortised over the period of the loans.

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

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

Intercompany guarantees
Where the company enters into financial guarantee contracts to guarantee the performance or indebtedness of other companies within the group, the company considers these to be insurance arrangements and accounts for them as such. In this respect, the company treats the guarantee contract as a contingent liability until such time as it becomes probable that the company will be required to make a payment under the guarantee.

Equity

Share capital
Ordinary shares are classified as shareholders funds. 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 policies in the year ended 30 June 2009, however certain comparatives were restated to conform with the current year's presentation.

2. Investment income

	Year ended June 2009 NZ$	Year ended June 2008 NZ$
Investment income includes interest received from related companies:		
Fletcher Building Limited	24,483,580	24,238,106
Fletcher Building (Australia) Pty Limited		32,139,853
	24,483,580	**56,377,959**

3. Funding costs

	Year ended June 2009 NZ$	Year ended June 2008 NZ$
Interest payable on:		
Term debt		4,544,367
Capital notes interest	20,050,097	11,619,932
Interest paid to related companies:		
Fletcher Building (Australia) Finance Pty Limited		16,056,359
Fletcher Challenge Investments Overseas Limited		10,534,692
Income from short term deposits		(131)
	20,050,097	42,755,219
Plus bank fees, share registry and issue expenses	336,680	706,372
	20,386,777	**43,461,591**

4. Taxation expense

	Year ended June 2009 NZ$	Year ended June 2008 NZ$
Earnings before taxation:		
New Zealand	4,096,803	11,911,802
Overseas		802,599
	4,096,803	12,714,401
Taxation at 30 (33) cents per dollar	(1,229,041)	(4,195,752)
Adjusted for:		
Tax rate adjustment		24,921
Tax in respect of prior years		653,215
Foreign dividend withholding tax payable		(15,338,045)
Non assessable income		10,172,866
	(1,229,041)	**(8,682,795)**
Current taxation:		
New Zealand	(1,229,041)	(8,953,412)
Overseas		270,617
	(1,229,041)	**(8,682,795)**

Notes to the financial statements

4. Taxation expense – continued

	Year ended June 2009 NZ$	Year ended June 2008 NZ$
Shareholder tax credits		
Dividend withholding payment credit account:		
Dividend withholding payment credits at the beginning of the year		
Dividend withholding payment credits received from taxation payments		15,338,109
Dividend withholding payment credits attached to dividends paid		(15,338,109)

5. Capital

Reported capital:		
Reported capital at the beginning of the year	205,000,000	205,000,000
	205,000,000	**205,000,000**

	Year ended June 2009	Year ended June 2008
Number of shares:		
Number of shares at the beginning of the year	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.

6. Reserve movements

	Year ended June 2009 NZ$	Year ended June 2008 NZ$
Revenue reserve		
Revenue reserve at the beginning of the year	(131,386,334)	(104,217,940)
Net earnings	2,867,762	4,031,606
Dividend paid to Fletcher Building Limited		(31,200,000)
	(128,518,572)	**(131,386,334)**
Net currency translation reserve		
Net currency translation reserve at the beginning of the year	3,005,899	3,035,500
Net currency translations	2,123	(29,601)
	3,008,022	**3,005,899**

7. Reserve balances

	June 2009 NZ$	June 2008 NZ$
Reserves comprise:		
Revenue reserve	(128,518,572)	(131,386,334)
Net currency translation reserve	3,008,022	3,005,899
	(125,510,550)	**(128,380,435)**

8. Provision for current taxation

Opening provision for taxation	41,775,227	(41,788,763)
Currency translation	(405)	(1,639)
Taxation in the earnings statement	(1,229,041)	(8,682,795)
Taxation in reserves		35,506,547
Intercompany (receipt)/ payment to Fletcher Building Holdings Limited	(41,757,807)	41,063,362
Net taxation payments	(17,015)	15,678,515
	(1,229,041)	**41,775,227**

9. Capital notes

Capital notes	**Coupon**	**Election date**		
Series 2010	8.85%	15 March 2010	37,330,000	37,330,000
Series 2010	9.00%	15 March 2010	37,670,000	29,889,500
Series 2013	8.90%	15 March 2013	75,000,000	75,000,000
Series 2014	9.00%	15 May 2014	111,857,000	
Series 2016	9.00%	15 May 2016	19,463,000	
Prepaid expenses			(4,891,287)	(2,703,497)
			276,428,713	**139,516,003**

Capital notes are long-term fixed rate unsecured subordinated notes. The indebtedness of Fletcher Building Finance 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 will be reset. Holders may then choose either to keep their capital notes on the new terms or to convert the principal amount and any accrued but unpaid interest into shares of Fletcher Building Limited, at approximately 98 percent of the current market price. Instead of Fletcher Building Limited issuing shares to holders who choose to convert, Fletcher Building Finance Limited may, at its option, purchase or redeem the capital notes for cash at the principal amount plus any accrued but unpaid interest.

If interest is not paid when due it is compounded on each subsequent interest payment date at the same rate as applicable to the principal of the capital notes. Non payment of interest does not constitute a default by the company or Fletcher Building Limited. However, each of the company and Fletcher Building Limited have covenanted not to pay dividends on, or make any distribution in respect of, in the case of the company, its ordinary shares, and in the case of Fletcher Building Limited, Fletcher Building shares, while any interest payments on the capital notes which have not been paid on the due date remain outstanding.

The capital notes do not carry voting rights and do not participate in any change in value of the issued shares of Fletcher Building Limited.

If the principal amount of the capital notes were to be converted to shares, 43.6 million (June 2008 22.9 million) Fletcher Building Limited shares would be issued at the share price as at 30 June 2009, of $6.58 (June 2008 $6.35).

Net tangible asset backing per capital note issued as at 30 June 2009 (30 June 2008)	1.29	1.55

Notes to the financial statements

10. Credit rating

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

11. 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 group's Board. The policy documents identify the risk and sets out the 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 group's businesses.

To manage the unpredictability of financial markets and minimise the potential adverse effects of these financial risks, the group enters into derivative financial instruments on behalf of the company. Risk management for liquidity, interest rate, and currency exposures are carried out by the group's treasury function.

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.

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.

(b) Liquidity risk

Liquidity risk is the risk that the company will encounter difficulty in meeting its financial commitments as they fall due. The group manages the liquidity risk of the company by having a spread of maturity dates of the group's debt facilities. Furthermore at 30 June 2009, the Fletcher Building group had $2,149 million of committed bank facilities of which $1,142 million was undrawn (June 2008 $1,988 million; $378 million).

(c) Foreign currency risk

(i) Currency balance sheet risk

Currency balance sheet risk arises from net investments in foreign operations. It is group policy to hedge this foreign currency balance sheet risk by borrowing in the currency of the asset in proportion to the group's debt to equity ratio. This reduces the variability in the debt to equity ratio due to currency translation. The company has no balance sheet currency risk as the assets and liabilities are naturally hedged.

(ii) Currency trade risk

Currency trade risk arises from committed or highly probable trade and capital expenditure transactions that are denominated in currencies other than the company's functional currency. The objective in managing this risk is to reduce the variability from changes in currency exchange rates on the operation's income and cashflow to acceptable parameters. It is group policy that no currency exchange risk may be entered into or allowed to remain outstanding should it arise on committed trade transactions. The company has no trade or capital expenditure transactions outstanding.

(d) 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 group manages the interest rate risk of the company and it is group policy to manage the fixed interest rate component of its debt and capital notes obligations within the range of 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.

11. Financial risk management overview – continued

Quantitative analysis

(a) Credit risk

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

(b) Liquidity risk

The following maturity analysis table sets out the remaining contractual undiscounted cash flows, including estimated interest payments for non-derivative liabilities.

	June 2009					
	Carrying Value NZ$	Contractual Cashflows NZ$	Up to 1 year NZ$	1-2 years NZ$	2-5 years NZ$	Over 5 years NZ$
Capital notes	281,320,000	371,953,388	98,225,453	18,493,800	232,483,754	22,750,381
Non-derivative liabilities	**281,320,000**	**371,953,388**	**98,225,453**	**18,493,800**	**232,483,754**	**22,750,381**
	June 2008					
Capital notes	142,219,500	183,886,452	12,668,760	78,131,185	93,086,507	
Non-derivative liabilities	**142,219,500**	**183,886,452**	**12,668,760**	**78,131,185**	**93,086,507**	

(c) Foreign currency risk

The company's exposure to foreign currency risk is summarised as follows:

	June 2009			June 2008		
	NZD NZ$	AUD NZ$	Total NZ$	NZD NZ$	AUD NZ$	Total NZ$
Capital notes	276,428,713		276,428,713	142,219,500		142,219,500
Cash and liquid deposits					(896)	(896)
Amounts owing to related companies						
Amounts owing by related companies	(362,624,837)		(362,624,837)	(177,821,030)		(177,821,030)
Net balance sheet exposure	**(86,196,124)**		**(86,196,124)**	**(35,601,530)**	**(896)**	**(35,602,426)**

(d) Interest rate risk

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

	June 2009						
	Interest rate by instrument %	Floating NZ$	Fixed up to 1 year NZ$	Fixed 1-2 years NZ$	Fixed 2-5 years NZ$	Fixed Over 5 years NZ$	Total NZ$
Capital notes	9.27%		75,000,000		186,857,000	19,463,000	281,320,000
Cash and liquid deposits							
Amounts owing by related companies	9.75%	(362,624,837)					(362,624,837)
Total		**(362,624,837)**	**75,000,000**		**186,857,000**	**19,463,000**	**(81,304,837)**

Notes to the financial statements

11. Financial risk management overview – continued

(d) Interest rate risk – continued

	June 2008						
	Interest rate by instrument %	Floating NZ$	Fixed up to 1 year NZ$	Fixed 1-2 years NZ$	Fixed 2-5 years NZ$	Fixed Over 5 years NZ$	Total NZ$
Capital notes	9.48%			67,219,500	75,000,000		142,219,500
Cash and liquid deposits	5.00%	(896)					(896)
Amounts owing by related companies	9.75%	(177,821,030)					(177,821,030)
Total		**(177,821,926)**		**67,219,500**	**75,000,000**		**(35,602,426)**

(e) 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.

(f) 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:

			June 2009		June 2008	
	Classifications	Fair value measurement	Carrying value NZ$	Fair value NZ$	Carrying value NZ$	Fair value NZ$
Capital notes	Amortised cost	Level 2	281,320,000	281,358,928	142,219,500	141,377,099
Cash and liquid deposits	Loans and receivable	Level 2			(896)	(896)
Amounts owing by related companies	Loans and receivable	Level 2	(362,624,837)	(362,624,837)	(177,821,030)	(177,821,030)
Net balance sheet exposure			**(81,304,837)**	**(81,265,909)**	**(35,602,426)**	**(36,444,827)**

In the fair value tables, interest accruals and fees are not included in the carrying values and fair value measurement are disclosed by the source of inputs, using the following three-level hierarchy:

(Level 1) Quoted prices (unadjusted) in active markets for identical assets or liabilities.

(Level 2) Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).

The fair value of interest bearing loans are based on the net present value of the future principal and interest cashflows, discounted at the market rate of interest at the reporting date. The fair values of amounts owing to and by related companies, cash and liquid deposits, the carrying value of these financial instruments approximate fair value given their short term duration.

(Level 3) Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

12. Contingent liabilities and capital commitments

There were no contingent liabilities or capital commitments as at 30 June 2009 (June 2008 nil).

The Fletcher Building group borrows funds based on covenants and a negative pledge and guarantee arrangement. The principal borrowing covenants relate to gearing, interest cover and minimum net tangible assets and at 30 June 2009, the Fletcher Building group was in compliance with all its covenants. The negative pledge ensures that external senior indebtedness ranks equally in all respects and includes the covenant that security can be given only in very limited circumstances. The guarantee states that Fletcher Building Limited and certain of its subsidiaries, including Fletcher Building Finance Limited, guarantee the debt of the group that has the benefit of the negative pledge and guarantee.

As at 30 June 2009 the guaranteeing group had debt subject to the negative pledge and guarantee and covenants of $941 million (June 2008 $1,482 million).

Where the company enters into financial guarantee contracts to guarantee the performance or indebtness of other companies within the group, the company considers these to be insurance arrangements and accounts for them as such. In this respect, the company treats the guarantee contract as a contingent liability until such time as it becomes probable that the company will be required to make a payment under the guarantee.

13. 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.

	June 2009 NZ$	June 2008 NZ$
Term receivable owing from related companies		
Fletcher Building Limited [1]	362,624,837	177,821,030
Fletcher Building (Australia) Pty Limited [2]		11,514
	362,624,837	**177,832,544**

[1] This unsecured advance represents long-term funding even though it is for no fixed term and bears interest at 9.75% (June 2008 9.75%).
[2] This unsecured current account was repaid during the year.

During the year the company paid $nil (30 June 2008 paid $37,597,326) to Fletcher Building Limited in respect of financial instruments.

14. Segmental information

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

	June 2009		
Geographical segments	New Zealand NZ$	Australia NZ$	Total NZ$
Investment income	24,483,580		24,483,580
Earnings before taxation	4,096,803		4,096,803
Total liabilities	283,135,387		283,135,387
Total assets	362,624,837		362,624,837

	June 2008		
Investment income	24,238,106	32,139,853	56,377,959
Earnings before taxation	11,911,802	802,599	12,714,401
Total liabilities	143,238,488		143,238,488
Total assets	219,828,223	29,830	219,858,053

Audit report

To the shareholders of Fletcher Building Finance Limited:

We have audited the financial statements on pages 2 to 13. The financial statements provide information about the past financial performance of the company and its financial position as at 30 June 2009. This information is stated in accordance with the accounting policies set out on pages 5 and 6.

Directors' responsibilities

The directors are responsible for the preparation of financial statements which give a true and fair view of the financial position of the company as at 30 June 2009 and the results of its operations and cashflows for the year ended on that date.

Auditors' responsibilities

It is our responsibility to express an independent opinion on the financial statements presented by the directors and report our opinion to you.

Basis of opinion

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

- the significant estimates and judgements made by the directors in the preparation of the financial statements;
- whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We conducted our audit in accordance with New Zealand Auditing Standards. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to obtain reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Our firm has also provided other services to the company in relation to taxation compliance and other assurance services. These matters have not impaired our independence as auditors of the company. The firm has no other relationship with, or interest in, the company.

Unqualified opinion

We have obtained all the information and explanations we have required.
In our opinion:

- proper accounting records have been kept by the company as far as appears from our examination of those records;
- the financial statements on pages 2 to 13:
  - comply with New Zealand generally accepted accounting practice;
  - give a true and fair view of the financial position of the company as at 30 June 2009 and the results of its operations and cashflows for the year ended on that date.

Our audit was completed on 12 August 2009 and our unqualified opinion is expressed as at that date.

KPMG

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 Finance 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
W. fletcherbuilding.com

Interest payment dates

Interest on capital notes is paid semi-annually, on 15 March and 15 September in respect of the notes issued in 2002 and on 15 May and 15 November in respect of the notes issued in 2008/2009. 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 Finance 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 $5,000. Subject to this minimum holding, transfers must be in multiples of $1,000.

Fletcher Building website

Details on Fletcher Building and its operations for the year ended 30 June 2009 can be viewed at the Fletcher Building website, **fletcherbuilding.com**.

This website contains all news releases to the NZX 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

Roderick S Deane
Chairman

Alan T Jackson

Hugh A Fletcher
Member of the Audit Committee

John F Judge
Chair of the Audit Committee

Jonathan P Ling

Gene T Tilbrook
Member of the Audit Committee

Sir Dryden Spring

Kerrin M Vautier
Member of the Audit Committee

Ralph G Waters

Management

Martin C Farrell
Company Secretary

Bill J Roest
Chief Financial Officer

Don Le Quesne
Australian Branch Manager

Registered offices

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T. +64 9 525 9000

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DC 2067
NSW 2067
Australia

Level 11 Tower B
Zenith Centre
821 Pacific Highway
Chatswood
NSW 2067
Australia
T. +61 2 8986 0900
ARBN 096 046 936

Trustee

The capital notes are constituted under a Trust Deed dated 12 November 2002 and noteholders are entitled to the benefit of, are bound by, and are deemed to have notice of the provisions of the Trust Deed.

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

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