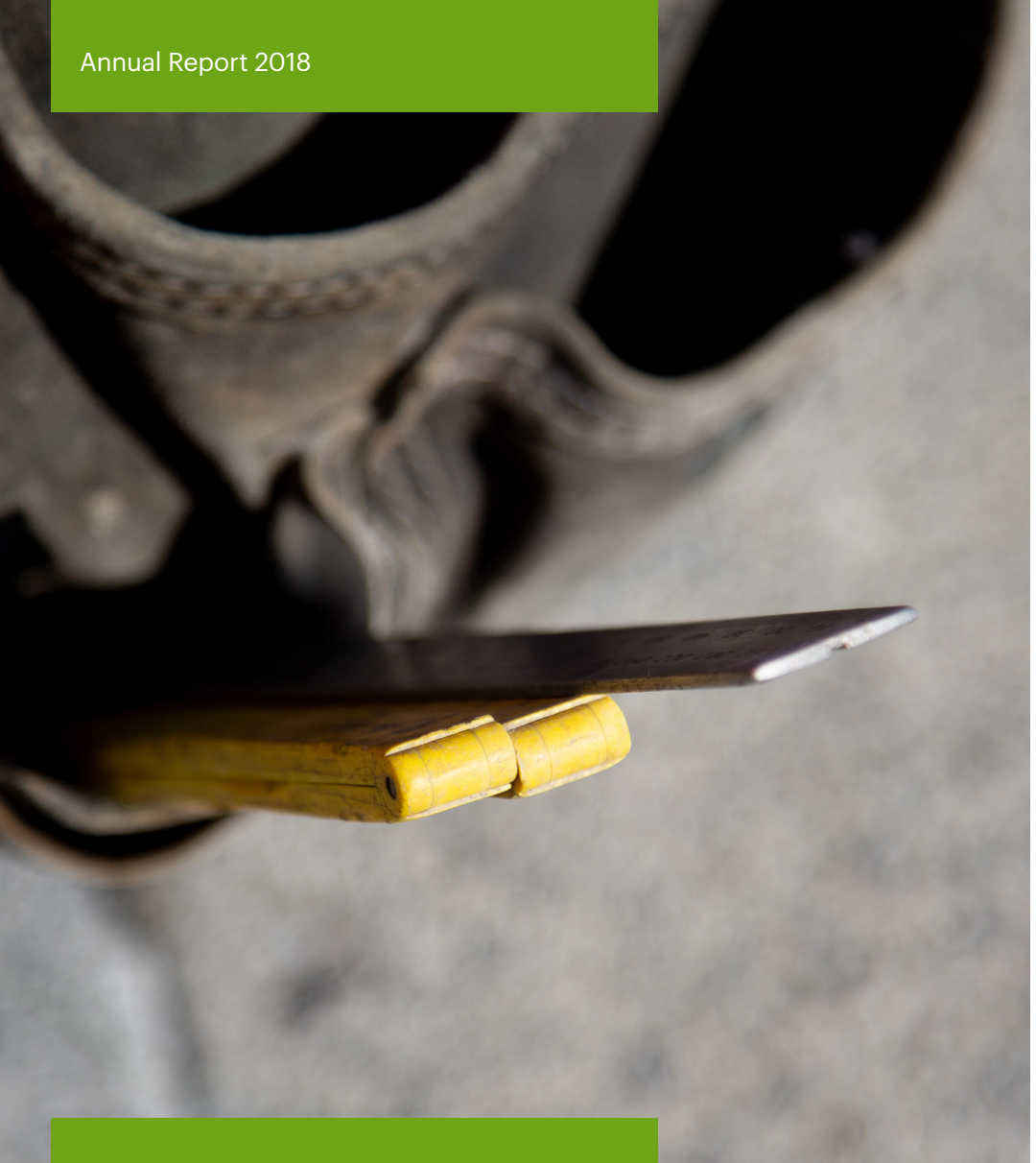


Fletcher Building
Industries Limited



Annual Report 2018



This report is dated
22 August 2018 and is
signed on behalf of the
board of Fletcher
Building Industries
Limited by:

| | |
|-----------------------------------|----|
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Sir Ralph Norris
Chairman



Bruce Hassall
Director

Letter from the chairman.

I am pleased to present the annual report of Fletcher Building Industries Limited (the "Company") for the year ended 30 June 2018.

Fletcher Building Industries is a wholly owned subsidiary of Fletcher Building Limited (the "Group"). The contents of this annual report should be read in conjunction with the Group 2018 annual report which can be viewed at fbu.com.

RESULTS FOR THE PERIOD

Net losses after tax for the year to 30 June 2018 were \$35.2 million (2017: \$38.1 million). Shareholders' funds decreased to \$380.2 million from \$414.5 million at 30 June 2017.

BUSINESS ACTIVITIES

The Company has issued capital notes and those funds have been invested in other Fletcher Building group companies. The Company owns 20 per cent of the shares in Fletcher Building Holdings New Zealand Limited which currently holds all of the shares in the Group's New Zealand operating subsidiaries.

During the year the Company issued \$150 million of additional capital notes to an institutional investor and those funds were invested in Fletcher Building Holdings New Zealand Limited consistent with the existing capital notes on issue.

FLETCHER BUILDING GROUP PERFORMANCE

Fletcher Building Limited guarantees all of the capital notes issued by Fletcher Building Industries on an unsecured subordinated basis. The financial performance of the Company should be considered in conjunction with the financial statements of the Group. The Group reported net losses of \$190 million for the year ended 30 June 2018, compared to earnings of \$94 million in prior year. The decrease



in net earnings is due to lower earnings from the Construction division as a result of the recognition of provisions for future losses on construction contracts currently being completed.

The financial position of the Company is dependent on that of Fletcher Building Limited. The provisions recognised during the period in the Construction division have resulted in the Group breaching certain covenants in relation to its borrowings. This is not expected to impact the Group's ability to provide ongoing support to the Company. Further information on the operations and performance of the Group, including the detailed going concern disclosure note, is available on its website, fbu.com, and I recommend that you take the opportunity to review it.

A handwritten signature in black ink, which appears to read 'Ralph Norris'. The signature is stylized and includes a long horizontal flourish at the end.

Sir Ralph Norris
Chairman

Income statement, statement of comprehensive income and statement of movements in equity

Income statement
For the year ended 30 June 2018

| | Notes | Year ended June 2018 NZ\$000 | Year ended June 2017 NZ\$000 |
|--|-------|------------------------------------|------------------------------------|
| Share of profits / (losses) of associate | 5 | (10,668) | 59,762 |
| Earnings / (losses) before interest and taxation | | (10,668) | 59,762 |
| Funding costs | 2 | (34,064) | (30,026) |
| Earnings / (losses) before taxation | | (44,732) | 29,736 |
| Taxation benefit | 3 | 9,538 | 8,407 |
| Net earnings / (losses) | | (35,194) | 38,143 |

Statement of comprehensive income
For the year ended 30 June 2018

| | Notes | Year ended June 2018 NZ\$000 | Year ended June 2017 NZ\$000 |
|---|-------|------------------------------------|------------------------------------|
| Net earnings / (losses) | | (35,194) | 38,143 |
| Share of associate's other comprehensive income | 5 | 855 | (632) |
| Total comprehensive income / (loss) | | (34,339) | 37,511 |

Statement of movements in equity
For the year ended 30 June 2018

| | Notes | Year ended June 2018 NZ\$000 | Year ended June 2017 NZ\$000 |
|---|-------|------------------------------------|------------------------------------|
| Total equity at the beginning of the year | | 414,498 | 376,987 |
| Total comprehensive income / (loss) | | (34,339) | 37,511 |
| Total equity | | 380,159 | 414,498 |

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 2018

| | Notes | As at June 2018 NZ\$'000 | As at June 2017 NZ\$'000 |
|--------------------------------------|-------|--------------------------------|--------------------------------|
| Assets | | | |
| Current assets: | | | |
| Amounts owed by related companies | 14 | 103,000 | 71,565 |
| Current tax asset | 9 | 9,538 | 8,407 |
| Total current assets | | 112,538 | 79,972 |
| Non-current assets: | | | |
| Investment in associate | 5 | 943,651 | 843,464 |
| Total non-current assets | | 943,651 | 843,464 |
| Total assets | | 1,056,189 | 923,436 |
| Liabilities | | | |
| Current liabilities: | | | |
| Accrued interest | | 6,827 | 8,938 |
| Amounts owed to related companies | 14 | 19,203 | |
| Capital notes | 10 | 150,000 | 100,000 |
| Total current liabilities | | 176,030 | 108,938 |
| Non-current liabilities: | | | |
| Capital notes | 10 | 500,000 | 400,000 |
| Total non-current liabilities | | 500,000 | 400,000 |
| Total liabilities | | 676,030 | 508,938 |
| Equity | | | |
| Reported capital | 6 | 346,000 | 346,000 |
| Reserves | 7, 8 | 34,159 | 68,498 |
| Total equity | | 380,159 | 414,498 |
| Total liabilities and equity | | 1,056,189 | 923,436 |

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

On behalf of the board 22 August 2018



Sir Ralph Norris
Chairman



Bruce Hassall
Director

Statement of cash flows and reconciliation of net earnings to net cash from operating activities

Statement of cash flows

For the year ended 30 June 2018

| | Year ended June 2018 NZ\$000 | Year ended June 2017 NZ\$000 |
|---|------------------------------------|------------------------------------|
| Cash flow from operating activities: | | |
| Prepayments | | 14 |
| Dividend received | 40,000 | 40,000 |
| Interest paid | (36,175) | (29,144) |
| Net cash from operating activities | 3,825 | 10,870 |
| Cash flow from investing activities: | | |
| Purchase of investments | (150,000) | |
| Net cash from investing activities | (150,000) | |
| Cash flow from financing activities: | | |
| Advances from related companies | (3,825) | (10,870) |
| Issue of capital notes | 150,000 | |
| Net cash from financing activities | 146,175 | (10,870) |
| Net movement in cash held | | |
| Add opening cash and liquid deposits | | |
| Closing cash and liquid deposits | | |

Reconciliation of net earnings to net cash from operating activities

For the year ended 30 June 2018

| | Year ended June 2018 NZ\$000 | Year ended June 2017 NZ\$000 |
|--|------------------------------------|------------------------------------|
| Cash was received from net earnings | (35,194) | 38,143 |
| Adjustment for items not involving cash and other items: | | |
| Share of profits from associate | 10,668 | (59,762) |
| Dividend received from associate | 40,000 | 40,000 |
| Taxation | (9,538) | (8,407) |
| Prepayments | | 14 |
| Accruals | (2,111) | 882 |
| Net cash from operating activities | 3,825 | 10,870 |

Statement of accounting policies

For the year ended 30 June 2018

Basis of presentation

The financial statements presented are those of Fletcher Building Industries Limited (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 a Financial Markets Conduct Act 2013 reporting entity in terms of the Financial Reporting Act 2013. 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 comprise the income statement, statement of comprehensive income, statement of movements in equity, balance sheet, statement of cash flows, 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. 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 associate's post-acquisition profits or losses is recognised in the income 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 associate are eliminated to the extent of the group's interest in the associate. 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 the investment in the associate are recognised in the income statement.

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.

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 tax 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 on transaction date, less directly attributable transaction costs, and subsequently measured at amortised cost using the effective interest rate method.

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. 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, interest income, 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 following sets out the new accounting standards and amendments to standards that were applicable to the Company from 1 July 2017.

NZ IFRS 9 Financial Instruments

NZ IFRS 9 Financial Instruments addresses the classification, measurement and de-recognition of financial assets, financial liabilities, impairment of financial assets and hedge accounting. The hedge accounting rules in NZ IFRS 9 align hedge accounting more closely with the Group's risk management activities. The Company adopted NZ IFRS 9 from 1 July 2017. The impact of adopting NZ IFRS 9 is summarised below:

- No changes to the classification or carrying amounts of financial assets and financial liabilities in the balance sheet under NZ IFRS 9.
- The new hedge accounting rules in NZ IFRS 9 had no impact as the Company currently has no hedges for which hedge accounting applies.
- The new impairment requirements are based on an expected credit loss model, replacing the incurred loss methodology under NZ IAS 39. This had no material impact on the Company's financial assets.

The International Accounting Standards Board has issued a number of standards, amendments and interpretations that 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 other changes in accounting policies in the year ended 30 June 2018.

| | Year ended June 2018 NZ\$000 | Year ended June 2017 NZ\$000 |
|---|------------------------------------|------------------------------------|
| 2. Funding costs | | |
| Interest payable on: | | |
| Capital notes interest | 32,443 | 30,940 |
| Amounts owing to Fletcher Building Limited | 655 | |
| Plus bank fees, share registry and issue expenses | 966 | 147 |
| Interest receivable on: | | |
| Amounts owed by Fletcher Building Limited | | (1,061) |
| | 34,064 | 30,026 |
| 3. Taxation benefit | | |
| Earnings/(losses) before taxation | (44,732) | 29,736 |
| Taxation at 28 cents per dollar | 12,525 | (8,326) |
| Adjusted for: | | |
| Non assessable income | (2,987) | 16,733 |
| | 9,538 | 8,407 |

4. Nature of operations

The company continues to own 20 per cent of the shares in Fletcher Building Holdings New Zealand Limited.

The company accounts for this investment in its group accounts using the equity method (refer note 5).

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.

The company is therefore exposed to the trading risks of those New Zealand businesses, particularly through the building products and construction cycle. However, the capital notes are subject to a guarantee from Fletcher Building Limited. Further details are provided in notes 10 and 12.

Notes to the financial statements

| | Year ended June 2018 NZ\$'000 | Year ended June 2017 NZ\$'000 |
|---|-------------------------------------|-------------------------------------|
| 5. Investment in associate | | |
| Carrying amount of associate – Fletcher Building Holdings New Zealand Group | | |
| Carrying amount at the beginning of the year | 843,464 | 824,334 |
| Share of profits/(losses) of associate | (10,668) | 59,762 |
| Share of associate's other comprehensive income/(loss) | 855 | (632) |
| Investment in Fletcher Building Holdings New Zealand Limited | 150,000 | |
| Dividend received from associate | (40,000) | (40,000) |
| Investment in associate | 943,651 | 843,464 |
| Associate information – Fletcher Building Holdings New Zealand Group | | |
| Balance sheet information for associate – 100% | | |
| External assets | 3,612,615 | 3,568,856 |
| External liabilities | (1,479,989) | (1,123,619) |
| Debt | (57,953) | (54,153) |
| Intercompany | 1,181,226 | 363,083 |
| Non-controlling interest | (20,131) | (19,333) |
| Equity | 3,235,768 | 2,734,834 |
| Equity – Fletcher Building Industries Limited share – 20% | 647,154 | 546,967 |
| Goodwill acquired at cost | 296,497 | 296,497 |
| Investment in associate | 943,651 | 843,464 |
| Equity accounted earnings for Fletcher Building Holdings New Zealand Group comprise: | | |
| Summarised income statement for associate – 100% | | |
| Sales | 6,228,161 | 6,537,801 |
| Earnings/(losses) before interest and tax | (145,880) | 346,998 |
| Interest income | 89,856 | 39,379 |
| Foreign exchange loss | (4,795) | 1,765 |
| Earnings before tax | (60,819) | 388,142 |
| Taxation expense | 7,479 | (89,333) |
| Net earnings/(losses) | (53,340) | 298,809 |
| Net earnings – Fletcher Building Industries Limited share – 20% | (10,668) | 59,762 |

Notes to the financial statements

| | Year ended June 2018 NZ\$000 | Year ended June 2017 NZ\$000 |
|---|------------------------------------|------------------------------------|
| 6. Capital | | |
| Reported Capital: | | |
| Reported capital at the beginning of the year | 346,000 | 346,000 |
| | 346,000 | 346,000 |
| Number of shares: | | |
| Number of shares at the beginning of the year | 346,000 | 346,000 |
| | 346,000 | 346,000 |
| All ordinary shares are issued and fully paid, and carry equal rights in respect of voting, dividend payments and distribution upon winding up. | | |
| 7. Reserve movements | | |
| Revenue reserve | | |
| Revenue reserve at the beginning of the year | 68,498 | 30,987 |
| Net earnings/(losses) | (35,194) | 38,143 |
| Other comprehensive income/(loss) | 855 | (632) |
| | 34,159 | 68,498 |
| 8. Reserve balances | | |
| Reserves comprise: | | |
| Revenue reserve | 34,159 | 68,498 |
| | 34,159 | 68,498 |
| 9. Current tax asset | | |
| Opening current tax asset | 8,407 | 8,448 |
| Taxation benefit in the income statement | 9,538 | 8,407 |
| Related party receipt from Fletcher Building Holdings Limited | (8,407) | (8,448) |
| | 9,538 | 8,407 |
| 10. Capital Notes | | |
| Listed capital notes | 100,000 | 100,000 |
| Unlisted capital notes | 50,000 | |
| Current Portion | 150,000 | 100,000 |
| Listed Capital notes | 400,000 | 400,000 |
| Unlisted capital notes | 100,000 | |
| Non-current portion | 500,000 | 400,000 |
| | 650,000 | 500,000 |

Notes to the financial statements

10. Capital notes continued

Listed capital notes

Listed capital notes are long-term fixed rate unsecured subordinated debt instruments that are traded instruments on the NZDX. 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 are 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 per cent 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. 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 listed capital notes is 5.43% (30 June 2017: 5.82%).

The listed 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 listed capital notes held at 30 June 2018 were to be converted to shares, 73 million (June 2017: 64 million) Fletcher Building Limited shares would be issued at the share price as at 30 June 2018, of \$6.95 (June 2017: \$7.99).

At 30 June 2018 \$84 million (June 2017: \$100 million) of listed capital notes were held by Fletcher Buildings Holdings Limited as Treasury Stock.

Unlisted capital notes

On the 6 December 2017 Fletcher Building Industries Limited issued a total of \$150m of unlisted capital notes which are not listed on the NZDX. Fletcher Building Industries can redeem the unlisted capital notes for cash at par after 18 - 30 months depending on the tranche and otherwise in certain defined circumstances. If the notes are not repaid by Fletcher Building Industries, the holder has the right to request conversion of the capital notes into ordinary shares of Fletcher Building Limited at 95 per cent of volume weighted average share price calculated over a period before the time of conversion. If the unlisted capital notes are not redeemed or converted after 18 - 30 months, these rights of redemption and conversion arise on each subsequent quarterly interest payment date.

The unlisted 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 unlisted capital notes held at 30 June 2018 were to be converted to shares, 23 million Fletcher Building Limited shares would be issued.

| | Fletcher Building Industries Group | |
|--|------------------------------------|------|
| | 2018 | 2017 |
| Net tangible asset backing per capital note issued as at 30 June | 1.58 | 1.83 |

11. Credit rating

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

12. 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 capital structure, credit, liquidity, currency and interest rates but is governed by the Fletcher Building group's principles and policy documents approved by the board. The policy documents identify the risks 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 risk on underlying exposures 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 that would otherwise be past due or impaired.

Notes to the financial statements

12. Financial risk management overview continued

(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 2018, the Fletcher Building group had \$2,705 million of committed funding facilities of which \$828 million were undrawn (June 2017: \$2,666 million; \$536 million).

The following maturity analysis table sets out the remaining contractual undiscounted cash flows, 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 because they are offset by debtors with similar payment terms.

| Fletcher Building Industries Group - June 2018 | | | | |
|--|-----------------------------------|-------------------------|------------------------|------------------------|
| | Contractual cash flows NZ\$000 | Up to 1 year NZ\$000 | 1 - 2 years NZ\$000 | 2 - 5 years NZ\$000 |
| Capital notes | 650,000 | 150,000 | 200,000 | 300,000 |
| Non-derivative liabilities - Principal cash flows | 650,000 | 150,000 | 200,000 | 300,000 |
| Contractual interest cash flows | 89,471 | 35,046 | 24,675 | 29,750 |
| Total contractual cash flows | 739,471 | 185,046 | 224,675 | 329,750 |

| Fletcher Building Industries Group - June 2017 | | | | |
|--|-----------------------------------|-------------------------|------------------------|------------------------|
| | Contractual cash flows NZ\$000 | Up to 1 year NZ\$000 | 1 - 2 years NZ\$000 | 2 - 5 years NZ\$000 |
| Capital notes | 500,000 | 100,000 | 100,000 | 300,000 |
| Non-derivative liabilities - Principal cash flows | 500,000 | 100,000 | 100,000 | 300,000 |
| Contractual interest cash flows | 81,041 | 28,945 | 21,796 | 30,300 |
| Total contractual cash flows | 581,041 | 128,945 | 121,796 | 330,300 |

(c) Interest rate risk

Interest rate risk is the risk that the value of a financial instrument or cash flows 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 80%. The position in this range is managed depending upon underlying interest rate exposures and economic conditions. Cross currency interest rate swaps, interest rate swaps and forward rate agreements are used by Fletcher Building group to manage this position.

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

| | Year ended June 2018 NZ\$000 | Year ended June 2017 NZ\$000 |
|--------------------|------------------------------------|------------------------------------|
| Floating | 150,000 | |
| Fixed up to 1 year | 100,000 | 100,000 |
| Fixed 1 - 2 years | 100,000 | 100,000 |
| Fixed 2 - 5 years | 300,000 | 300,000 |
| Fixed over 5 years | | |
| Total | 650,000 | 500,000 |

(d) Sensitivity analysis

Foreign currency and interest rate risk is governed and managed by the Fletcher Building group. It is estimated a 100 basis point increase in interest rates would result in an increase in the company's interest costs in a year by approximately \$1.5 million on the company's debt portfolio exposed to floating rates at balance date (June 2017: Nil). The sensitivity analysis is included in the Fletcher Building group financial statements.

Notes to the financial statements

12. Financial risk management overview continued

(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:

| | Classifications | June 2018 | | June 2017 | |
|------------------------------------|-----------------------|---------------------------|-----------------------|---------------------------|-----------------------|
| | | Carrying value NZ\$000 | Fair value NZ\$000 | Carrying value NZ\$000 | Fair value NZ\$000 |
| Capital notes | Amortised cost | 650,000 | 669,033 | 500,000 | 505,750 |
| Amounts owing by related companies | Loans and receivables | 83,797 | 83,797 | 71,565 | 71,565 |

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 cash flows 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 cash flows are between 4.50% and 4.95% (June 2017: 4.55% and 5.10%) including margins.

13. Contingent liabilities and capital commitments

There were no contingent liabilities or capital commitments as at 30 June 2018 (June 2017: 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. During the year Fletcher Building group breached certain financial covenants in relation to its US Private Placement (USPP) and bank syndicate funding arrangements as a result of the provision for expected losses incurred by the Company's Building and Interiors (B+I) business. Revised terms were agreed with its commercial banking syndicate and USPP noteholders and as at 30 June 2018 Fletcher Building group was in compliance with all its covenants. Further information is included in the Fletcher Building group financial statements.

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 2018 the guaranteeing group had debt subject to the negative pledge arrangement and covenants of \$1,253 million (June 2017: \$1,650 million).

14. Related party transactions

| | Year ended June 2018 NZ\$000 | Year ended June 2017 NZ\$000 |
|---|------------------------------------|------------------------------------|
| The company is a wholly owned subsidiary of Fletcher Building Limited, which is also the ultimate holding company | | |
| Amount owing from / (to) related companies: | | |
| Fletcher Challenge Finance Investments Limited ¹ | 103,000 | 63,000 |
| Fletcher Building Limited ² | (19,203) | 8,565 |
| | 83,797 | 71,565 |

¹ This unsecured advance is non-interest bearing.

² This unsecured advance is at call and pays 7.5% interest.

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 Financial Statements

Opinion

We have audited the financial statements of Fletcher Building Industries Limited ("FBIL") and its associate (together the "group"), on pages 2 to 11, which comprise the balance sheet of the group as at 30 June 2018, and the income statement, statement of comprehensive income, statement of movements in equity and statement of cash flows for the year then ended of the group, and notes to the financial statements including a summary of significant accounting policies.

In our opinion, the financial statements on pages 2 to 11 present fairly, in all material respects, the financial position of the group as at 30 June 2018 and its financial performance and its cash flows for the year then ended in accordance with New Zealand equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

This report is made solely to the company's shareholders, as a body. Our audit has been undertaken so that we might state to the company's shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's shareholders, as a body, for our audit work, for this report, or for the opinions we have formed.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

We are independent of the group in accordance with Professional and Ethical Standard 1 (revised) *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Other than in our capacity as auditor we have no relationship with, or interest in, the group. Ernst & Young has provided audit, transaction advisory services, tax advisory, tax compliance and other assurance services to various companies within the Fletcher Building Limited Group. Partners and employees of our firm may deal with the group on normal terms within the ordinary course of trading activities of the business of the group.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For the matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the audit of the financial statements* section of the audit report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying financial statements.

Independent auditor's report

| Key audit matter | How we addressed the key audit matter |
|--|--|
| Accounting for Investment in associate | |
| <p>The company owns 20 per cent of the shares in Fletcher Building Holdings New Zealand Limited ("FBHNZ") which currently holds all of the shares in Fletcher Building Limited's New Zealand operating subsidiaries.</p> <p>The investment in FBHNZ is accounted for under the equity method. The carrying value of the investment includes goodwill identified on acquisition, net of any impairment loss, and is therefore considered for impairment on an annual basis.</p> <p>Refer to note 5 'Investment in associate'.</p> | <p>In performing our audit procedures we:</p> <ul style="list-style-type: none"> ▶ evaluated the group's basis of accounting; ▶ recalculated the group's share of the equity accounted profits including dividend receipts; ▶ evaluated any indicators of impairment to assess the carrying value of the investment; and ▶ assessed the adequacy of the disclosures in the financial statements. |

Information other than the financial statements and auditor's report

The directors of the company are responsible for the Annual Report, which includes information other than the financial statements and auditor's report.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Directors' Responsibilities for the Financial Statements

The directors are responsible, on behalf of the entity, for the preparation and fair presentation of the financial statements in accordance with New Zealand equivalents to International Financial Reporting Standards and International Financial Reporting Standards, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

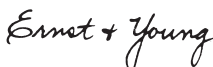
In preparing the financial statements, the directors are responsible for assessing the group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (New Zealand) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of the auditor's responsibilities for the audit of the financial statements is located at External Reporting Board's website: <https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1/>. This description forms part of our auditor's report.

The engagement partner on the audit resulting in this independent auditor's report is Simon O'Connor.



Chartered Accountants
Auckland
22 August 2018

Noteholder information

Statutory Disclosures

Fletcher Building Industries Limited capital notes are quoted on the NZX Debt Market (NZDX) under the company code 'FBI' and are tradeable on the NZDX. The spread of Fletcher Building Industries Limited noteholders is outlined on page 121 of the Fletcher Building Limited annual report, which is available to view on www.fbu.com.

The directors of Fletcher Building Industries Limited are the directors of Fletcher Building Limited, with no further remuneration payable. The Chairman, Chief Executive Officer, Chief Financial Officer and Group General Counsel and Company Secretary of Fletcher Building hold equivalent roles in Fletcher Building Industries, with no further remuneration payable.

Please refer to pages 117 and 118 of the Fletcher Building annual report for general disclosures of interest by directors holding office as at 30 June 2018.

No waivers were granted by NZX Regulation in respect of, and NZX has not taken any disciplinary action against, Fletcher Building Industries Limited during the year to 30 June 2018.

No donations were made by the company during the accounting period.

Registered Office

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Phone: +64 9 525 9000
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Trustee

Covenant Trustee Services Limited
Level 6, 191 Queen Street
Auckland 1010, New Zealand
PO Box 4243, Shortland Street
Auckland 1140, New Zealand
Phone: +64 9 909 5100

The capital notes are constituted under a Trust Deed dated 12 November 2002 as consolidated and restated dated 12 November 2015. Noteholders are entitled to the benefit of, are bound by, and are deemed to have notice of the provisions of the Trust Deed

Registry

Computershare Investor Services Limited (Computershare) looks after our capital notes register and is your first point of contact for any queries regarding your investment in Fletcher Building Industries Limited. You can view your investment portfolio, indicate your preference for electronic communications, supply your email address, change your details or update your payment instructions relating to Fletcher Building Industries at any time by visiting the Computershare Investor Centre investorcentre.com/nz.

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Email: enquiry@computershare.co.nz
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Direct crediting of interest payments

Interest on capital notes is paid semi-annually on 15 March and 15 September. To minimise the risk of fraud and misplacement of interest payment cheques, noteholders are strongly recommended to have all payments made by way of direct credit to their nominated bank account in New Zealand.

Receiving your communications electronically

We encourage noteholders to receive investor communications electronically as it keeps costs down, delivery of our communication to you is faster and it is better for the environment. All you need to do is log in to investorcentre.com/nz and update your 'Communication Preference' to enable us to send all your investor correspondence electronically where possible.

Our half year review and annual reports will be publicly available at fletcherbuilding.com/investor-centre. If you wish to receive, free of charge at any time, a printed or electronic copy of our most recent or future half year review or annual reports, please update your communication preference by visiting the Computershare Investor Centre investorcentre.com/nz or by contacting Computershare directly.

