



**Fletcher Building  
Industries Limited.**

This report is dated  
20 August 2014 and  
is signed on behalf of the  
board of Fletcher Building  
Industries Limited by:



**Ralph Waters**  
Chairman of Directors



**Mark Adamson**  
Managing Director

<b>Chairman's review</b>	1
<b>Income statement, statement of comprehensive income and statement of movements in equity</b>	2
<b>Balance sheet</b>	3
<b>Statement of cash flows and reconciliation of net earnings/(loss) to net cash from operating activities</b>	4
<b>Statement of accounting policies</b>	5
<b>Notes to the financial statements</b>	6
<b>Independent auditor's report</b>	12
<b>Noteholder information</b>	13
<b>Directory</b>	13

# Chairman's review.

Ralph Waters

I am pleased to present the Annual Report of Fletcher Building Industries Limited for the year ended 30 June 2014.

## Operating performance

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 2014, a copy of which has been sent to you, and the Fletcher Building 2014 annual report which can be viewed at [fbu.com](http://fbu.com).

## Results for the period

Net earnings after tax for the year to 30 June 2014 were \$35.8 million (2013: \$21.3 million). Shareholders' funds increased to \$257.8 million from \$222.7 million at 30 June 2013.

## Business activities

Fletcher Building Industries 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 Fletcher Building's New Zealand operating subsidiaries.

## 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 nomination committees of the board; and
- 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; and

- 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.

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, [fbu.com](http://fbu.com), and I recommend that you take the opportunity to review it.

A handwritten signature in black ink, appearing to read 'Ralph Waters'.

**Ralph Waters**  
Chairman of Directors

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

### Income statement

For the year ended 30 June 2014

	Notes	Fletcher Building Industries Group		Fletcher Building Industries	
		Year ended June 2014 \$000	Year ended June 2013 \$000	Year ended June 2014 \$000	Year ended June 2013 \$000
Share of profits of associate	6	65,433	50,141		
Other income	2			75,000	
Earnings before interest and taxation		65,433	50,141	75,000	
Funding costs	3	(41,218)	(40,059)	(41,218)	(40,059)
Earnings/(loss) before taxation		24,215	10,082	33,782	(40,059)
Taxation benefit	4	11,541	11,216	11,541	11,216
<b>Net earnings/(loss)</b>		<b>35,756</b>	<b>21,298</b>	<b>45,323</b>	<b>(28,843)</b>

### Statement of comprehensive income

For the year ended 30 June 2014

	Notes	Fletcher Building Industries Group		Fletcher Building Industries	
		Year ended June 2014 \$000	Year ended June 2013 \$000	Year ended June 2014 \$000	Year ended June 2013 \$000
Net earnings/(loss)		35,756	21,298	45,323	(28,843)
Share of associate's other comprehensive income/(loss)	6	(653)	1,423		
<b>Total comprehensive income</b>		<b>35,103</b>	<b>22,721</b>	<b>45,323</b>	<b>(28,843)</b>

### Statement of movements in equity

For the year ended 30 June 2014

	Fletcher Building Industries Group		Fletcher Building Industries	
	Year ended June 2014 \$000	Year ended June 2013 \$000	Year ended June 2014 \$000	Year ended June 2013 \$000
Total equity at the beginning of the year	222,656	239,935	171,092	239,935
Total comprehensive income	35,103	22,721	45,323	(28,843)
Dividend paid to Fletcher Building Limited		(40,000)		(40,000)
<b>Total equity</b>	<b>257,759</b>	<b>222,656</b>	<b>216,415</b>	<b>171,092</b>

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 2014

	Notes	Fletcher Building Industries Group		Fletcher Building Industries	
		June 2014 \$000	June 2013 \$000	June 2014 \$000	June 2013 \$000
<b>Assets</b>					
Current assets:					
Debtors and prepayments		110	578	110	578
Amounts owed by related companies	15	51,968		51,968	
Current tax asset	10	11,541	11,216	11,541	11,216
<b>Total current assets</b>		<b>63,619</b>	<b>11,794</b>	<b>63,619</b>	<b>11,794</b>
Non-current assets:					
Amounts owed by related companies	15		7,414		7,414
Investment in associate	6	734,621	744,841	693,277	693,277
<b>Total non-current assets</b>		<b>734,621</b>	<b>752,255</b>	<b>693,277</b>	<b>700,691</b>
<b>Total assets</b>		<b>798,240</b>	<b>764,049</b>	<b>756,896</b>	<b>712,485</b>
<b>Liabilities</b>					
Current liabilities:					
Accrued interest		9,161	10,073	9,161	10,073
Capital notes	11	93,169	111,857	93,169	111,857
<b>Total current liabilities</b>		<b>102,330</b>	<b>121,930</b>	<b>102,330</b>	<b>121,930</b>
Non-current liabilities:					
Capital notes	11	438,151	419,463	438,151	419,463
<b>Total non-current liabilities</b>		<b>438,151</b>	<b>419,463</b>	<b>438,151</b>	<b>419,463</b>
<b>Total liabilities</b>		<b>540,481</b>	<b>541,393</b>	<b>540,481</b>	<b>541,393</b>
<b>Equity</b>					
Reported capital	7	346,000	346,000	346,000	346,000
Reserves	8, 9	(88,241)	(123,344)	(129,585)	(174,908)
<b>Total equity</b>		<b>257,759</b>	<b>222,656</b>	<b>216,415</b>	<b>171,092</b>
<b>Total liabilities and equity</b>		<b>798,240</b>	<b>764,049</b>	<b>756,896</b>	<b>712,485</b>

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

On behalf of the board 20 August 2014



**Ralph Waters**  
Chairman of Directors



**Mark Adamson**  
Managing Director

## Statement of cash flows and reconciliation of net earnings/(loss) to net cash from operating activities

### Statement of cash flows

For the year ended 30 June 2014

	Fletcher Building Industries Group		Fletcher Building Industries	
	Year ended June 2014 \$000	Year ended June 2013 \$000	Year ended June 2014 \$000	Year ended June 2013 \$000
Cash flow from operating activities:				
Prepayments	468	529	468	529
Dividend received	75,000		75,000	
Interest paid	(42,130)	(41,071)	(42,130)	(41,071)
<b>Net cash from operating activities</b>	<b>33,338</b>	<b>(40,542)</b>	<b>33,338</b>	<b>(40,542)</b>
Cash flow from investing activities:				
Purchase of investments				
Sale of investments				
<b>Net cash from investing activities</b>				
Cash flow from financing activities:				
Advances from related companies	(33,338)	80,542	(33,338)	80,542
Dividend paid to Fletcher Building Limited		(40,000)		(40,000)
<b>Net cash from financing activities</b>	<b>(33,338)</b>	<b>40,542</b>	<b>(33,338)</b>	<b>40,542</b>
Net movement in cash held				
Add opening cash and liquid deposits				
<b>Closing cash and liquid deposits</b>				

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

For the year ended 30 June 2014

	Fletcher Building Industries Group		Fletcher Building Industries	
	Year ended June 2014 \$000	Year ended June 2013 \$000	Year ended June 2014 \$000	Year ended June 2013 \$000
Cash was received from net earnings/(loss)	35,756	21,298	45,323	(28,843)
Adjustment for items not involving cash and other items:				
Share of profits from associate	(65,433)	(50,141)		
Dividend received from associate	75,000			
Taxation	(11,541)	(11,216)	(11,541)	(11,216)
Prepayments	468	529	468	529
Accruals	(912)	(1,012)	(912)	(1,012)
<b>Net cash from operating activities</b>	<b>33,338</b>	<b>(40,542)</b>	<b>33,338</b>	<b>(40,542)</b>



## Statement of accounting policies

For the year ended 30 June 2014

### 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 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, generally accompanying a shareholding of between 20% and 50% 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 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.

### 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.

### 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 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 2014.

	Fletcher Building Industries Group		Fletcher Building Industries	
	Year ended	Year ended	Year ended	Year ended
	June 2014	June 2013	June 2014	June 2013
	\$000	\$000	\$000	\$000
<b>2 Other income</b>				
Dividend received from associate			75,000	
			75,000	
<b>3 Funding costs</b>				
Interest payable on:				
Capital notes interest	40,068	42,615	40,068	42,615
Amounts owing to Fletcher Building Limited	534		534	
Plus bank fees, share registry and issue expenses	616	702	616	702
Interest receivable on:				
Amounts owed by Fletcher Building Limited		(3,258)		(3,258)
	41,218	40,059	41,218	40,059
<b>4 Taxation benefit</b>				
Earnings/(loss) before taxation	24,215	10,082	33,782	(40,059)
Taxation at 28 cents per dollar	(6,780)	(2,823)	(9,459)	11,216
Adjusted for:				
Non assessable income	18,321	14,039	21,000	
	11,541	11,216	11,541	11,216

### 5 Nature of operations

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

The company accounts 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.

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 11 and 13.



	Fletcher Building Industries Group		Fletcher Building Industries	
	Year ended	Year ended	Year ended	Year ended
	June 2014	June 2013	June 2014	June 2013
	\$000	\$000	\$000	\$000
<b>6 Investment in associate</b>				
<b>Carrying amount of associate – Fletcher Building Holdings New Zealand Group</b>				
Carrying amount at the beginning of the year	744,841	693,277	693,277	693,277
Share of profits of associate	65,433	50,141		
Share of associate's other comprehensive income/(loss)	(653)	1,423		
Dividend received from associate	(75,000)			
<b>Investment in associate</b>	<b>734,621</b>	<b>744,841</b>	<b>693,277</b>	<b>693,277</b>
<b>Associate information – Fletcher Building Holdings New Zealand Group</b>				
<b>Balance sheet information for associate – 100%</b>				
External assets	2,439,958	2,327,796		
External liabilities	(857,771)	(719,119)		
Debt	(23,624)	(23,956)		
Intercompany	663,934	688,689		
Non-controlling interest	(31,879)	(31,692)		
<b>Equity</b>	<b>2,190,618</b>	<b>2,241,718</b>		
Equity – Fletcher Building Industries Limited share – 20%	438,124	448,344		
Goodwill acquired at cost	296,497	296,497		
<b>Investment in associate</b>	<b>734,621</b>	<b>744,841</b>		
<b>Equity accounted earnings for Fletcher Building Holdings New Zealand Group comprise:</b>				
<b>Summarised income statement for associate – 100%</b>				
Sales	4,750,725	4,553,399		
Earnings before interest and tax	393,319	328,567		
Interest income	57,665	23,332		
Foreign exchange gain/(loss)	300	(1,107)		
Earnings before tax	451,284	350,792		
Taxation expense	(124,121)	(100,085)		
Net earnings	327,163	250,707		
<b>Net earnings – Fletcher Building Industries Limited share – 20%</b>	<b>65,433</b>	<b>50,141</b>		

	Fletcher Building Industries Group		Fletcher Building Industries	
	Year ended	Year ended	Year ended	Year ended
	June 2014	June 2013	June 2014	June 2013
	\$000	\$000	\$000	\$000
<b>7 Capital</b>				
<b>Reported capital:</b>				
Reported capital at the beginning of the year	346,000	346,000	346,000	346,000
	<b>346,000</b>	<b>346,000</b>	<b>346,000</b>	<b>346,000</b>
<b>Number of shares:</b>				
Number of shares at the beginning of the year	346,000	346,000	346,000	346,000
	<b>346,000</b>	<b>346,000</b>	<b>346,000</b>	<b>346,000</b>
All ordinary shares are issued and fully paid, and carry equal rights in respect of voting, dividend payments and distribution upon winding up.				
<b>8 Reserve movements</b>				
<b>Revenue reserve</b>				
Revenue reserve at the beginning of the year	(123,344)	(106,065)	(174,908)	(106,065)
Net earnings/(loss)	35,756	21,298	45,323	(28,843)
Dividends paid		(40,000)		(40,000)
Other comprehensive income/(loss)	(653)	1,423		
	<b>(88,241)</b>	<b>(123,344)</b>	<b>(129,585)</b>	<b>(174,908)</b>
<b>9 Reserve balances</b>				
Reserves comprise:				
Revenue reserve	(88,241)	(123,344)	(129,585)	(174,908)
	<b>(88,241)</b>	<b>(123,344)</b>	<b>(129,585)</b>	<b>(174,908)</b>
<b>10 Current tax asset</b>				
Opening current tax asset	11,216	149	11,216	149
Taxation benefit in the income statement	11,541	11,216	11,541	11,216
Intercompany receipt from Fletcher Building Holdings Limited	(11,216)	(149)	(11,216)	(149)
	<b>11,541</b>	<b>11,216</b>	<b>11,541</b>	<b>11,216</b>
<b>11 Capital notes</b>				
Capital notes	93,169	111,857	93,169	111,857
<b>Current portion</b>	<b>93,169</b>	<b>111,857</b>	<b>93,169</b>	<b>111,857</b>
Capital notes	438,151	419,463	438,151	419,463
<b>Non-current portion</b>	<b>438,151</b>	<b>419,463</b>	<b>438,151</b>	<b>419,463</b>
	<b>531,320</b>	<b>531,320</b>	<b>531,320</b>	<b>531,320</b>

## 11 Capital notes continued

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. Each of the company and Fletcher Building Limited has covenanted not to pay dividends to its shareholders while interest that is due and payable on capital notes has not been paid. The weighted average interest rate on the capital notes is 7.44% (30 June 2013: 7.89%).

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 2014 were to be converted to shares, 62 million (June 2013: 64 million) Fletcher Building Limited shares would be issued at the share price as at 30 June 2014, of \$8.81 (June 2013: \$8.43).

At 30 June 2014 \$131 million (June 2013: 102 million) of capital notes were held by Fletcher Buildings Holdings Limited as Treasury Stock.

	Fletcher Building Industries Group	
	2014	2013
Net tangible asset backing per capital note issued as at 30 June	1.49	1.42

## 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 capital structure, 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 set 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 2014, the Fletcher Building group had \$2,378 million of committed bank facilities of which \$616 million were undrawn (June 2013: \$2,690 million; \$819 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.

### 13 Financial risk management overview continued

#### (b) Liquidity risk continued

Fletcher Building Industries Group and Fletcher Building Industries June 2014					
	Contractual cash flows \$000	Up to 1 year \$000	1 – 2 years \$000	2 – 5 years \$000	Over 5 years \$000
Capital notes	531,320	93,169	94,463	343,688	
<b>Non-derivative liabilities – Principal cash flows</b>	<b>531,320</b>	<b>93,169</b>	<b>94,463</b>	<b>343,688</b>	
Contractual interest cash flows	108,590	35,561	29,021	44,008	
<b>Total contractual cash flows</b>	<b>639,910</b>	<b>128,730</b>	<b>123,484</b>	<b>387,696</b>	

Fletcher Building Industries Group and Fletcher Building Industries June 2013					
	Contractual cash flows \$000	Up to 1 year \$000	1 – 2 years \$000	2 – 5 years \$000	Over 5 years \$000
Capital notes	531,320	111,857	93,169	251,294	75,000
<b>Non-derivative liabilities – Principal cash flows</b>	<b>531,320</b>	<b>111,857</b>	<b>93,169</b>	<b>251,294</b>	<b>75,000</b>
Contractual interest cash flows	114,707	39,155	28,161	44,528	2,863
<b>Total contractual cash flows</b>	<b>646,027</b>	<b>151,012</b>	<b>121,330</b>	<b>295,822</b>	<b>77,863</b>

#### (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 70%. 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		
	Year ended June 2014 \$000	Year ended June 2013 \$000
Floating – non-interest bearing		
Fixed up to 1 year	93,169	111,857
Fixed 1 – 2 years	94,463	93,169
Fixed 2 – 5 years	343,688	251,294
Fixed over 5 years		75,000
<b>Total</b>	<b>531,320</b>	<b>531,320</b>

#### (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.

### 13 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 2014		June 2013	
		Carrying value \$000	Fair value \$000	Carrying value \$000	Fair value \$000
Capital notes	Amortised cost	531,320	536,092	531,320	552,207
Amounts owing by related companies	Loans and receivables	51,968	51,968	7,414	7,414
		<b>583,288</b>	<b>588,060</b>	538,734	559,621

#### 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 5.45% and 6.15% (June 2013: 5.37% and 6.02%) including margins.

### 14 Contingent liabilities and capital commitments

There were no contingent liabilities or capital commitments as at 30 June 2014 (June 2013: 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 2014 and throughout the year, 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 2014 the guaranteeing group had debt subject to the negative pledge arrangement and covenants of \$1,308 million (June 2013: \$1,394 million).

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

	Fletcher Building Industries Group		Fletcher Building Industries	
	Year ended June 2014 \$000	Year ended June 2013 \$000	Year ended June 2014 \$000	Year ended June 2013 \$000

### 15 Related party transactions

The company is a wholly owned subsidiary of Fletcher Building Limited, which is also the ultimate holding company.

Receivable owing from related companies:

Fletcher Building Limited <sup>1</sup>	51,968	7,414	51,968	7,414
	<b>51,968</b>	<b>7,414</b>	<b>51,968</b>	<b>7,414</b>

<sup>1</sup> This unsecured advance is at call and earns 7.5% interest.

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

### 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 to 11. The financial statements comprise the balance sheets as at 30 June 2014, the income statements and statements of comprehensive income, movements in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, for both the company and the group.

#### Directors' responsibility for the company and group financial statements

The Directors are responsible for the preparation of company and group financial statements in accordance with generally accepted accounting practice in New Zealand and International Financial Reporting Standards 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. Subject to certain restrictions, partners and employees of our firm may also deal with the company and group on normal terms within the ordinary course of trading activities of the business of the company and group. These matters have not impaired our independence as auditor 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 to 11:

- comply with generally accepted accounting practice in New Zealand;
- comply with International Financial Reporting Standards; and
- give a true and fair view of the financial position of the company and the group as at 30 June 2014 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.



20 August 2014  
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  
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

E. moreinfo@fbu.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 2015, 15 March 2017, 15 March 2018 and 15 March 2019, and on 15 May and 15 November in respect of the notes with the election dates of 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 2014 can be viewed at the Fletcher Building website, at fbu.com. This website contains all news releases to the NZX and ASX and financial presentations made by Fletcher Building.

#### NZX waivers

The NZX has granted a waiver to the company from Listing Rule 10.4 – Annual and Half-Yearly Reports, subject to the following conditions:

- 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 containing the statements referred to in Section 209(3) of the Companies Act 1993, to its noteholders,
- that the company's annual report include any specific relevant disclosures required by the Companies Act 1993 and certain sections of Listing Rule 10.4.5, and
- that the Fletcher Building annual report contain details of the spread of the company's noteholders and the corporate governance policies, practices and processes.

The company also relies on a waiver from NZX Listing Rule 11.1.1, to enable the company both to:

- restrict transfers of capital notes where the transfer would result in either the transferor or the transferee holding an aggregate principal amount of less than \$5,000; and
- restrict transfers of capital notes where the transfer is for an amount of less than \$1,000.

This waiver is granted subject to the condition that the company will not impose the restriction on holders of series FBIO90, FBI100 and FBI110 notes where the transferor has a minimum holding of \$2,000 or greater and seeks to transfer an amount that is a multiple of \$500.

### Directory

#### Directors

##### Ralph Waters

Chairman

##### Mark Adamson

##### Antony Carter

##### Alan Jackson

##### John Judge

Chairman of the Audit and Risk Committee

##### Sir Ralph Norris

##### Kathryn 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

##### Charles Bolt

Company Secretary and General Counsel

##### Nick Olson

Chief Financial Officer

#### Registered office

##### 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 consolidated and restated dated 27 June 2014. 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:

Corporate Trust Limited,  
trading as Foundation Corporate Trust  
PO Box 3376  
Shortland Street  
Auckland 1140  
New Zealand

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

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**Fletcher Building  
Industries Limited**  
fbu.com

