

Information Memorandum for Capital Noteholders

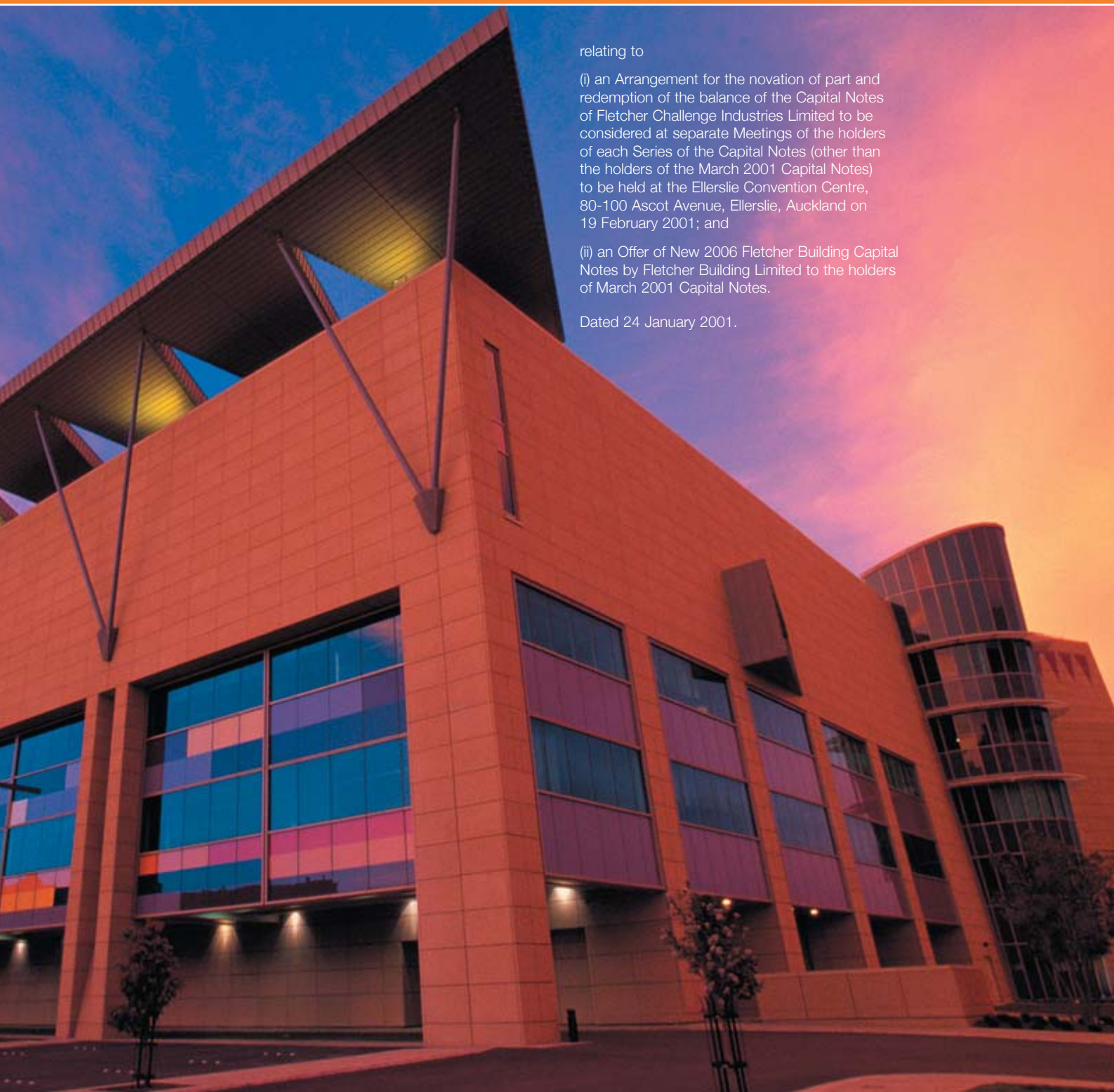
**Fletcher Challenge Limited,
Fletcher Challenge Industries Limited
and Fletcher Building Limited**

relating to

(i) an Arrangement for the novation of part and redemption of the balance of the Capital Notes of Fletcher Challenge Industries Limited to be considered at separate Meetings of the holders of each Series of the Capital Notes (other than the holders of the March 2001 Capital Notes) to be held at the Ellerslie Convention Centre, 80-100 Ascot Avenue, Ellerslie, Auckland on 19 February 2001; and

(ii) an Offer of New 2006 Fletcher Building Capital Notes by Fletcher Building Limited to the holders of March 2001 Capital Notes.

Dated 24 January 2001.





This Information Memorandum is dated and is prepared as at 24 January 2001 and is an Investment Statement and Prospectus for the purposes of the Securities Act 1978. It provides information relevant to an arrangement in respect of the Capital Notes described in this Information Memorandum which will be considered by the holders of each Series of the Capital Notes (other than the holders of the March 2001 Capital Notes) in separate meetings of each Series and the High Court of New Zealand. This Information Memorandum also provides information relevant to the offer of New 2006 Fletcher Building Capital Notes to holders of March 2001 Capital Notes by Fletcher Building and information in relation to the Fletcher Building Ordinary Shares into which the Capital Notes may convert. The registered Prospectus to which this Investment Statement relates forms part of this Information Memorandum.

Terms used in this Information Memorandum are defined in the Glossary of Defined Terms on pages 107 to 112.

THIS IS AN IMPORTANT DOCUMENT

If you are in any doubt as to how to deal with this document please immediately consult a member of the New Zealand Stock Exchange, solicitor, accountant or other financial adviser.

A free phone number has also been established by Fletcher Challenge (0800 162 222) which you can call if you have any questions about the Capital Notes Arrangement or the New 2006 Fletcher Building Capital Notes Offer.

If you have sold your Capital Notes before 5.00pm 16 February 2001, please send this Information Memorandum to the Member of the New Zealand Stock Exchange through whom you made the sale, requesting that the documentation be forwarded to the new holder of those Capital Notes.



Scott Panel and Hardware markets and distributes products and services to the New Zealand furniture and joinery market

Important Information

(The information in this section is required under the Securities Act 1978)

Investment decisions are very important. They often have long-term consequences. Read all documents carefully. Ask questions. Seek advice before committing yourself.

Choosing an investment

When deciding whether to invest in New 2006 Fletcher Building Capital Notes or vote in favour of the Capital Notes Arrangement, consider carefully the answers to the following questions that can be found on the pages noted below:

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What sort of investment is this?	90
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In addition to the information on those pages, important information can be found in the section entitled Additional Statutory Information on pages 76 to 84 of this Information Memorandum.



Important Information

Choosing an investment adviser

You have the right to request from an investment adviser a written disclosure statement stating his or her experience and qualifications to give advice.

That document will tell you:

- (a) whether the adviser gives advice only about particular types of investments;
- (b) whether the advice is limited to the investments offered by one or more particular financial organisations; and
- (c) whether the adviser will receive a commission or other benefit from advising you.

You are strongly encouraged to request that statement. An investment adviser commits an offence if he or she does not provide you with a written disclosure statement within five working days of your request. You must make the request at the time the advice is given or within one month of receiving the advice.

In addition:

- (a) if an investment adviser has any conviction for dishonesty or has been adjudged bankrupt, he or she must tell you this in writing; and
- (b) if an investment adviser receives any money or assets on your behalf, he or she must tell you in writing the methods employed for this purpose.

Tell the adviser what the purpose of your investment is. This is important because different investments are suitable for different purposes.

A copy of this Information Memorandum duly signed by or on behalf of the Directors of Fletcher Building (as issuer) and by or on behalf of Fletcher Challenge, FCIL and their Directors (as promoters of the Capital Notes Arrangement and the New 2006 Fletcher Building Capital Notes Offer) and having endorsed thereon or attached thereto all documents, information, certificates and other matters required to be so endorsed or attached by section 41 of the Securities Act 1978, has been or, prior to distribution, will be delivered to the Registrar of Companies at Auckland for registration under section 42 of the Securities Act 1978.



*Hume Industries produces concrete pipes
and related drainage products*

The Existing Capital Notes are listed on the New Zealand Stock Exchange and are expected to continue to be so listed after implementation of the Capital Notes Arrangement. An application has been made to the New Zealand Stock Exchange for permission to list the New 2006 Fletcher Building Capital Notes being offered to the holders of March 2001 Capital Notes and the Fletcher Building Ordinary Shares as described in this Information Memorandum. All requirements of the New Zealand Stock Exchange that can be complied with on or before the date of this Information Memorandum have been complied with. However, the New Zealand Stock Exchange does not accept any responsibility for any of the contents or statements in this Information Memorandum. The New Zealand Stock Exchange has authorised its members to act in this issue.

No person may offer, sell or deliver any New 2006 Fletcher Building Capital Notes or distribute any document (including this Information Memorandum and the Investment Statement and Prospectus incorporated in it) to any person outside New Zealand except in accordance with all of the legal requirements of the relevant jurisdiction. Unless otherwise agreed with Fletcher Building, any person subscribing for New 2006 Fletcher Building Capital Notes shall, by virtue of such subscription, be deemed to represent that he, she or it is not in a jurisdiction which does not permit the making of an offer of a kind described in the Investment Statement and Prospectus contained in this Information Memorandum and is not acting for the account or benefit of a person within such jurisdiction.

The information concerning Fletcher Building, Fletcher Challenge and FCIL contained in this Information Memorandum, including Annexures B, C, D, E, H and I (but excluding Annexures A, F and G), has been provided by Fletcher Challenge.

No person is authorised to give any information or to make any representation in relation to the Capital Notes Arrangement or the New 2006 Fletcher Building Capital Notes Offer not contained in this Information Memorandum and, if given or made, such information or representation should not be relied upon as having been authorised.

No person named in this Information Memorandum guarantees (or makes any guarantee in relation to), or, except as expressly stated, otherwise undertakes any liability in respect of, the Capital Notes.



Overview

Please read this first

The purpose of this document is to:

- Explain what will happen to your Capital Notes following Fletcher Challenge Group's restructuring and separation; and
- Inform you of the action you may take in respect of your Capital Notes.

On 10 October 2000 Fletcher Challenge announced the restructuring and separation of its remaining three Divisions. After the restructuring and separation:

- Building Division is to be a stand alone Group headed by a publicly listed company named Fletcher Building Limited;
- Energy Division is to be sold to Shell Overseas Holdings Limited and Apache Corporation;
- Forests Division is to remain as the continuing business of Fletcher Challenge (which will be renamed Fletcher Challenge Forests Limited); and
- A new company, Rubicon Limited, is to be established.

On completion of this separation, if the Capital Notes Arrangement described in this Information Memorandum is not implemented, your Capital Notes will continue as unsecured subordinated obligations of FCIL. Your position will therefore be altered because FCIL will be part of the Fletcher Challenge Forests Group and your Capital Notes will effectively be backed by the assets and cash flows of the Fletcher Challenge Forests Group rather than those of the present Fletcher Challenge Group.

In summary, the Capital Notes Arrangement affects all Capital Notes except the March 2001 Capital Notes and involves:

- Fletcher Building taking over the obligations of Fletcher Challenge and FCIL in respect of 35 per cent of your Capital Notes and increasing the interest rate on those Capital Notes by 0.50 per cent;
- FCIL redeeming the balance of your Capital Notes for cash at fair market prices; and
- If you hold less than \$5,000 of Capital Notes, FCIL redeeming all of your Capital Notes for cash at fair market prices.



Wellington's WestpacTrust Stadium was built by Fletcher Construction using a wide range of Fletcher Challenge Building products

If you hold the March 2001 Capital Notes, FCIL will redeem all of these for cash on 15 March 2001. You may choose to reinvest all or some of your redemption amount from these Notes in New 2006 Fletcher Building Capital Notes. Details of this offer are on pages 18 to 23. No person other than holders of March 2001 Capital Notes may apply for New 2006 Fletcher Building Capital Notes.

The Board of Fletcher Challenge unanimously recommends that you vote in favour of the Capital Notes Arrangement and, if you are a holder of March 2001 Capital Notes, that you accept the offer of New 2006 Fletcher Building Capital Notes.

The following table indicates the particular parts of this Information Memorandum which are relevant to you if:

- You hold March 2001 Capital Notes and/or
- You hold Capital Notes, other than, or in addition to, the March 2001 Capital Notes and/or
- Your holding of Capital Notes is less than \$5,000 of any Series.

	March 2001 Capital Notes	Other Capital Notes	Noteholders with Holdings of Capital Notes less than \$5,000 of any Series
Introduction	•	•	•
Capital Notes Arrangement		•	•
New 2006 Fletcher Building Capital Notes Offer	•		
Business Descriptions	•	•	
Other Information	•	•	
Annexures (as described on page XI)	•	•	

A summary of the terms of the Existing Capital Notes appears on page X.



Overview

What do you need to do?

Read the relevant sections of this document very carefully. If you have any doubt about what you should do you should seek advice from your financial adviser.

You are encouraged to fill out the enclosed proxy form for voting (follow the instructions on it) and send it in the reply paid envelope to Computershare Registry Services Limited. Alternatively you can attend the meeting(s) of Noteholders on 19 February 2001.

If you hold the March 2001 Capital Notes and you want to reinvest all or some of your redemption amount from these Notes in the New 2006 Fletcher Building Capital Notes, fill out the enclosed application form (follow the instructions on it) and send it in the reply paid envelope to Computershare Registry Services Limited.

If you have any questions, the Capital Note Information Line in New Zealand is **0800 162 222**

Fletcher Challenge Limited, Private Bag 92114, Auckland, New Zealand



Fletcher Aluminium's products are marketed under six Fletcher Aluminium brands

Important Dates

What follows has been prepared on the assumption that the Capital Notes Arrangement is approved by each meeting of the holders of each Series of the Capital Notes (other than holders of the March 2001 Capital Notes) and is approved by the High Court of New Zealand and that the Separation Transaction is implemented on 23 March 2001.

1 February 2001	Opening date of New 2006 Fletcher Building Capital Notes Offer.
5.00pm, 16 February 2001	Record date for determination of voting entitlements.
17 February 2001 at the times specified on page 8	Latest time for lodging proxies with Computershare Registry Services Limited.
19 February 2001	Meetings of all Noteholders and of the holders of each Series of the Capital Notes (other than holders of the March 2001 Capital Notes).
5.00pm, 2 March 2001	Record date for March 2001 Capital Notes redemption payment.
5 March 2001	Adjourned meetings of holders (if any).
5 March 2001	Closing Date of New 2006 Fletcher Building Capital Notes Offer made to holders of the March 2001 Capital Notes.
5.00 pm, 13 March 2001	Latest time for Noteholders to file notice of appearance or notice of opposition at the Final Court Hearing.
15 March 2001	March 2001 Capital Notes redeemed.
15 March 2001	Final Court Hearing and receipt of the Final Court Orders.*
5.00pm, 16 March 2001	Record date for Cash Out Payment.
23 March 2001	Implementation of the Capital Notes Arrangement.
23 March 2001	Allotment of Novated Capital Notes and New 2006 Fletcher Building Capital Notes.
28 March 2001	Cash Out Payment cheques mailed to holders. Small holdings of Existing Capital Notes redeemed.
29 March 2001	Expected date of initial quotation and commencement of trading of New 2006 Fletcher Building Capital Notes.
15 September 2001	First interest payment on New 2006 Fletcher Building Capital Notes.

* Beyond 15 March 2001, these dates are indicative only and may change and, among other things, are subject to Court approval and satisfaction of the conditions to the Capital Notes Arrangement.





Roderick Deane Chairman

Chairman's Letter

Fletcher Challenge
810 Great South Road
Penrose, Auckland

24 January 2001

Dear Noteholder,

On 10 October 2000 the Board of Fletcher Challenge Limited announced its intention to proceed with the restructuring and separation of the remaining three Divisions of the Fletcher Challenge Group (the Separation Transaction).

Unless the Capital Notes Arrangement explained in this Information Memorandum is implemented, your Capital Notes would carry on as obligations of Fletcher Challenge Industries Limited (FCIL) after the Separation Transaction. FCIL will be part of the Fletcher Challenge Forests Group (the remainder of Fletcher Challenge after the Separation) which will own and operate what is, essentially, the current business of the Fletcher Challenge Forests Division. The implications of the Separation Transaction for you as a Noteholder are explained in detail on page 5 of this Information Memorandum.

After careful thought, the Board of Fletcher Challenge has decided to propose to Noteholders an arrangement (the Capital Notes Arrangement) which it believes is fair and reasonable to existing Noteholders. Broadly, if approved, this will involve 35 per cent of the Capital Notes being taken over by Fletcher Building and the rest of them being redeemed for cash by FCIL at fair market prices. The Capital Notes Arrangement is described in detail in this Information Memorandum and has been independently reviewed by Grant Samuel & Associates Limited who confirm that it is fair and reasonable to Noteholders. Their report is set out as Annexure A of this Information Memorandum.

The Capital Notes Arrangement will become binding on you in relation to the Capital Notes of each Series held by you if the holders of the Capital Notes of each such Series approve the Capital Notes Arrangement by the necessary 75 per cent majority and the Capital Notes Arrangement is also approved by the High Court of New Zealand.

In addition, the March 2001 Capital Notes will be redeemed for cash at par on 15 March 2001. However, holders will be able to reinvest all or some of their redemption amount in New 2006 Fletcher Building Capital Notes being offered by Fletcher Building under the Investment Statement and Prospectus contained in this Information Memorandum.

The Board of Fletcher Challenge unanimously recommends that you vote in favour of the Capital Notes Arrangement and, if you are a holder of March 2001 Capital Notes, that you apply for your full entitlement to the New 2006 Fletcher Building Capital Notes.

Yours sincerely

Roderick Deane
Chairman



The cement rock and limestone quarry in Golden Bay Cement's Whangarei plant

Summary of Terms of Existing Capital Notes

Name	Election Date	Interest Rate	Amount Outstanding \$	Interest Payable Dates	Convertible Into ¹
April 2005 Capital Notes	30 April 2005	10.00 per cent	193,411,000	30 April/ 31 October	B, E
April 2004 Capital Notes	15 April 2004	8.00 per cent	110,110,000	15 April/ 15 October	B, E, F
Series II 2004 Capital Notes	15 April 2004	8.00 per cent	12,018,100	15 April/ 15 October	B, E
November 2003 Capital Notes	30 November 2003	10.30 per cent	48,463,000	31 May/ 30 November	B, E, F
June 2003 Capital Notes	15 June 2003	8.05 per cent	71,768,000	15 June/ 15 December	B, E, F
December 2002 Capital Notes	15 December 2002	11.25 per cent	78,232,000	15 June/ 15 December	B, E, F
October 2001 Capital Notes	31 October 2001	12.25 per cent	99,952,000	30 April/ 31 October	B, E, F
March 2001 Capital Notes	15 March 2001	8.00 per cent	88,199,585	15 March 2001	To be redeemed for cash on 15 March 2001
			\$702,153,685		

¹ B = Fletcher Challenge Building Shares
E = Fletcher Challenge Energy Shares
F = Fletcher Challenge Forests Shares

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*Project Manukau, a Fletcher Construction
joint venture project for Watercare Services Limited*

Capital Notes Arrangement

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- Summary of the Capital Notes Arrangement
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- Effect of the Separation Transaction on the Existing Capital Notes
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- Capital Notes Arrangement
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- Approval Process and Implementation of the Capital Notes Arrangement
-
- Taxation Implications Relating to the Redemption of Existing Capital Notes
-
- Taxation Implications Relating to the Novation of Existing Capital Notes
-

Summary of the Capital Notes Arrangement

FCIL is the issuer of the Existing Capital Notes. These are divided into different Series.

To assist you to identify the Series that your Existing Capital Notes are part of, the principal terms of each Series are set out on page X.

The Conditions of the Existing Capital Notes are set out in Annexure B.

1. The Separation of the Building, Energy and Forests Divisions of Fletcher Challenge

On 10 October 2000, the Board of Fletcher Challenge announced the restructuring and separation (the Separation Transaction) of the remaining three Divisions of the Fletcher Challenge Group. The Separation Transaction is described in more detail on page 4.

The implications of the Separation Transaction for the Existing Capital Notes are explained on page 5. The Separation Transaction does not require the consent of Noteholders or the Trustee.

2. Capital Notes Arrangement

Fletcher Challenge proposes the following rearrangement of the Existing Capital Notes (the Capital Notes Arrangement) which it considers fair and reasonable to Noteholders:

- Fletcher Building will take over the liabilities of Fletcher Challenge and FCIL in respect of 35 per cent (approximately \$215,000,000) of the Existing Capital Notes, other than the March 2001 Capital Notes, which will be redeemed on 15 March 2001.
- Fletcher Building will increase the interest rate on these Existing Capital Notes by 0.50 per cent.
- FCIL will redeem the balance of the Existing Capital Notes (plus all small holdings of less than \$5,000 of Existing Capital Notes) for cash at fair market prices.

The Capital Notes Arrangement is described in more detail on pages 6 and 7.

3. Approval of Capital Notes Arrangement

The Capital Notes Arrangement will be considered at separate meetings of the holders of each Series of Existing Capital Notes (other than the March 2001 Series) and, to the extent approved at those meetings and sanctioned by the High Court, will be implemented pursuant to a High Court approved Plan of Arrangement pursuant to section 236 of the Companies Act.

The Capital Notes Arrangement will become binding on all the holders of the Existing Capital Notes of each Series if it is approved by a 75 per cent majority vote of the holders at the meeting of that Series (and the Capital Notes Arrangement is sanctioned by the High Court of New Zealand).

4. Effect on Existing Capital Notes if the Capital Notes Arrangement is not Approved

If any Series Meeting does not approve the Capital Notes Arrangement, the Existing Capital Notes of that Series would remain as unsecured subordinated obligations of FCIL backed by the assets and cash flows of the present Forests Division of Fletcher Challenge. Also:

- The Series II 2004 Capital Notes and the 2005 Capital Notes would no longer be convertible into Fletcher Challenge Building Shares and Fletcher Challenge Energy Shares because these shares will be cancelled on Separation. In addition, these Capital Notes may become perpetually renewable at five yearly intervals from their next Election Date (i.e. may never become repayable) and, if so, and with effect from the next Election Date, their interest rate would change to a margin over the New Zealand Government Stock Yield Rate.
- All the other Series of Existing Capital Notes would only be convertible into shares of Fletcher Challenge (then renamed Fletcher Challenge Forests Limited). Their interest rates would not change.

Effect of the Separation Transaction on the Existing Capital Notes

1. Conditions of Capital Notes Arrangement

The Capital Notes Arrangement is conditional on the Separation Transaction being approved and implemented in its entirety.

The Separation Transaction is conditional upon approval of the Separation Transaction by the shareholders of Fletcher Challenge and the High Court of New Zealand.

The Separation Transaction is not conditional on the Capital Notes Arrangement being approved.

The Capital Notes Arrangement is also subject to certain other conditions (which are set out in paragraph 8 of the Plan of Arrangement in Annexure I on page I 8).

2. The Separation Transaction

Key aspects of the Separation Transaction are:

- The assets and liabilities attributed to the Building Division of Fletcher Challenge will be separated into a stand alone group, the holding company of which will be a listed company to be named Fletcher Building and the Fletcher Challenge Building Shares will be cancelled;
- Fletcher Challenge's Energy Division will be sold to Shell Overseas Holdings Limited and Apache Corporation and the Fletcher Challenge Energy Shares will be cancelled;
- Certain assets, including the forestry biotechnology assets and South American assets of the Forests Division, the Challenge network of retail petrol operations and terminal assets in New Zealand and Australia and up to 1.2 million shares in Capstone Turbine Corporation, will be sold to a stand alone, listed company, to be called Rubicon Limited;
- Fletcher Challenge will arrange for a placement of 150,000,000 Fletcher Challenge Forests Preference Shares and 75,000,000 Fletcher Challenge Forests Ordinary Shares to Rubicon at a price of NZ\$0.40 per share;
- Fletcher Challenge (then renamed Fletcher Challenge Forests Limited) and FCIL will continue after completion of the Separation Transaction. Their assets and cash flows will substantially comprise the assets and cash flows of the present Forests Division of Fletcher Challenge. Fletcher Challenge Forests Limited will continue to be listed on the New Zealand Stock Exchange and the Australian Stock Exchange and its American Depositary Shares will be listed on the New York Stock Exchange.

The Existing Capital Notes are presently backed by the assets and cash flows of FCIL (i.e. essentially, the assets and cash flows of the Building Division, Energy Division and Forests Division of Fletcher Challenge). After completion of the Separation Transaction, the Existing Capital Notes will continue as unsecured subordinated obligations of FCIL. The Existing Capital Notes will then be backed by, essentially, the assets and cash flows of the current Forests Division of Fletcher Challenge, after the sale or transfer of the assets and liabilities referred to above and the issue of ordinary and preference shares in Fletcher Challenge Forests Limited to Rubicon also referred to above. Noteholders should refer to the

sections headed Fletcher Challenge and FCIL after Separation commencing on page 52 and Key Effects of the Separation Transaction on Fletcher Challenge Forests commencing on page 61 and also to Annexure E. Fletcher Challenge is therefore proposing the Capital Notes Arrangement.

3. The Trust Deed and the Separation Transaction

The Trust Deed for the Existing Capital Notes does not restrict or otherwise regulate the sale or transfer of assets by Fletcher Challenge or FCIL. Therefore, no consent of Noteholders or the Trustee is required to the sale or transfer of the assets that make up the Building Division or Energy Division of Fletcher Challenge, or to the transfer of the assets to Rubicon, or to the implementation of any of the other transactions making up the Separation Transaction.

The Separation Transaction will not give rise to any early conversion rights of Noteholders.

4. Effect of the Separation Transaction on the Existing Capital Notes

If the Separation Transaction is implemented and the Capital Notes Arrangement is not approved by the holders of Existing Capital Notes of any Series:

- The Existing Capital Notes of such Series would continue as unsecured subordinated obligations of FCIL;
- FCIL would then be part of the Fletcher Challenge Forests Group which will continue to operate the present business of the Forests Division of Fletcher Challenge, and the Existing Capital Notes of such Series would therefore be backed by the assets and cash flows of, essentially, the present Forests Division of Fletcher Challenge;
- The Existing Capital Notes of such Series, other than the Series II 2004 Capital Notes and the 2005 Capital Notes, would continue to be convertible into shares of Fletcher Challenge (then called Fletcher Challenge Forests Limited). There would be no change to the rates of interest payable on these Existing Capital Notes;
- The Series II 2004 Capital Notes and the 2005 Capital Notes would no longer be convertible into Fletcher Challenge Building Shares or Fletcher Challenge Energy Shares (because those shares will be cancelled under the Separation Transaction) and
 - these Existing Capital Notes may become perpetually renewable at five yearly intervals as from their next Election Date (i.e. FCIL may never be obliged to repay these Existing Capital Notes),
 - the rate of interest payable on these Existing Capital Notes would be amended with effect as from their next Election Dates and would become the then current five year New Zealand Government Stock Yield Rate plus the same margin over the New Zealand Government Stock Yield Rate as applied on the date of original issue of the Existing Capital Notes or the date they were last reset. That new interest rate would be recalculated at five yearly intervals thereafter.

Capital Notes Arrangement

1. Novation of Existing Capital Notes

Fletcher Building will take over (by novation) the liabilities of FCIL and Fletcher Challenge in respect of 35 per cent (approximately \$215,000,000 in aggregate) of the Existing Capital Notes of each Series, other than the March 2001 Capital Notes on a pro rata basis according to the aggregate principal amount of each Series held by each holder and on a \$1.00 for \$1.00 basis.

The Existing Capital Notes which will be taken over by Fletcher Building are referred to in this Information Memorandum as the Novated Capital Notes.

The amount of Existing Capital Notes to be novated is 35 per cent of each holding of each Series (other than the March 2001 Capital Notes), rounded up to the nearest multiple of 500. The balance of all holdings will be redeemed for cash. For example, if you hold 5,000 Existing Capital Notes of a particular Series, 2,000 of those will become Novated Capital Notes (35 per cent of 5,000 being 1,750, then rounded up to the nearest multiple of 500) with the balance of 3,000 Existing Capital Notes being redeemed for cash. Similarly, if you hold 6,000 Existing Capital Notes of a particular Series, 2,500 of those will become Novated Capital Notes (35 per cent of 6,000 being 2,100, then rounded up to the nearest multiple of 500) with the balance of 3,500 Existing Capital Notes being redeemed for cash.

2. Small Noteholders

Noteholders whose holding of Existing Capital Notes is less than \$5,000 will have all of their Existing Capital Notes of any series redeemed by FCIL for cash at fair market prices. The record date for this purpose will be 17 January 2001.

3. Cash Out Payment in respect of Cash Out Balance

Each Noteholder's Cash Out Balance will be redeemed by FCIL for cash at fair market prices calculated by reference to a margin of 1.50 per cent over the Government Stock Yield Rate on a date during the week commencing 22 January 2001 determined by FCIL for the relevant term of each Series. The record date for this purpose will be 16 March 2001. Each Noteholder will receive a minimum of the principal amount of the Cash Out Balance plus accrued interest. An example of how the Cash Out Payment is calculated for each Noteholder is shown on the statement enclosed with this Information Memorandum.

Noteholders are referred to the Independent Report on the Capital Notes Arrangement set out in Annexure A.

4. Payments

All payments to be made by FCIL under paragraphs 2 and 3 will be made five days following the implementation of the Capital Notes Arrangement or, if that day is not a Business Day, the next Business Day and will be made by:

- (a) mailing a cheque to the Noteholder registered on the record date of 16 March 2001 as the holder in the register as at the close of business on the date which is expected to be the date on which an order is made by the High Court pursuant to section 236(1) of the Companies Act approving the Capital Notes Arrangement (or to the first named of two or more joint holders) at the address appearing in the register; or
- (b) direct credit to any bank account nominated in writing by a Noteholder.

5. Higher interest coupon

From the date of implementation of the Capital Notes Arrangement, the interest rate payable on the Novated Capital Notes will be 0.50 per cent higher than their current interest rate.

6. Novation by Fletcher Building

The novation of Existing Capital Notes to Fletcher Building will involve Fletcher Building taking over all liabilities of FCIL and Fletcher Challenge under the Novated Capital Notes and the Trust Deed in relation to those Novated Capital Notes with effect as of the date of implementation of the Capital Notes Arrangement.

7. Release of Fletcher Challenge and FCIL

Fletcher Challenge and FCIL will be released from their respective obligations under the Novated Capital Notes and the Trust Deed with effect as of the date of implementation of the Capital Notes Arrangement.

8. Amendments to Conditions and Trust Deed

With effect as of the date of implementation of the Capital Notes Arrangement, the Conditions attaching to the Novated Capital Notes would be amended as appropriate, including;

- increasing the applicable interest rates by 0.50 per cent;
- amending their conversion terms so that they become convertible into Fletcher Building Ordinary Shares; and
- making such other amendments as are necessary or appropriate.

The Trust Deed will be amended and restated to reflect the above. The Amended and Restated Trust Deed will be available for inspection at each Series Meeting.

A copy of the Capital Notes Arrangement Deed will be available for inspection at each Series Meeting.

Approval Process and Implementation of the Capital Notes Arrangement

1. Meetings of Noteholders

The Capital Notes Arrangement will become binding on all the holders of the Existing Capital Notes of a particular Series if the holders of the Capital Notes of that Series at a separate meeting pass an Extraordinary Resolution approving the Capital Notes Arrangement and it is approved by the High Court of New Zealand and the other conditions of the Capital Notes Arrangement are satisfied or waived.

FCIL has, by the Notice of Meeting which accompanies this Information Memorandum, convened a meeting of all holders of Existing Capital Notes and separate meetings (each such meeting, and any adjournment of it, a Series Meeting) of the holders of each Series of Existing Capital Notes, other than the March 2001 Capital Notes, to be held at the Ellerslie Convention Centre, 80-100 Ascot Avenue, Ellerslie, Auckland, New Zealand on 19 February 2001.

Each Series Meeting will commence at the time mentioned in the Notice of Meeting and set out in the following Table of Meetings or the later time at which the immediately preceding meeting of all Noteholders or Series Meeting is closed, or adjourned or its proceedings temporarily suspended by its chairman for the purpose of establishing whether or not a quorum is present.

To be valid, Proxy Forms for each Series Meeting must be received by Computershare Registry Services Limited, Level 2, 159 Hurstmere Road, Takapuna, North Shore City by the times on Saturday 17 February 2001 which are not later than 48 hours before the times set out in the table below.

Table of Meetings	
<i>Meeting</i>	<i>Starting Time</i>
All Noteholders	9.30am
October 2001 Capital Notes	9.45am
December 2002 Capital Notes	9.50am
June 2003 Capital Notes	9.55am
November 2003 Capital Notes	10.00am
April 2004 Capital Notes	10.05am
Series II 2004 Capital Notes	10.10am
April 2005 Capital Notes	10.15am

The meeting of all of the Noteholders, including the holders of the March 2001 Capital Notes, has been convened solely for the purpose of explaining the Capital Notes Arrangement and the overall meeting and voting procedures and giving an opportunity for Noteholders to raise questions of a general nature. This will be the first meeting and is scheduled to commence at 9.30a.m. on 19 February 2001. (It is not

necessary for all Noteholders at this meeting to approve the Capital Notes Arrangement and no resolution will be proposed at this meeting.)

After general explanations about the Capital Notes Arrangement and the meeting and voting procedures applicable to the Series Meetings and after dealing with any questions, the meeting of all Noteholders will be adjourned and separate, successive, meetings of each Series of Existing Capital Notes, other than the holders of the March 2001 Series, will be held, starting with the meeting of the holders of the October 2001 Series.

The holders of Existing Capital Notes of other Series will be entitled to remain in the meeting room throughout the separate Series Meetings unless any holders of Capital Notes of the relevant Series object.

The Chairman will adjourn any Series Meeting for which a quorum is not present at, or within 30 minutes after, the time appointed for such Series Meeting. The quorum at each Series Meeting will be two or more holders of the Existing Capital Notes of the relevant Series representing more than 50 per cent in Principal Amount of such Existing Capital Notes present in person or by proxy.

All voting will be on a poll.

Any adjourned Series Meetings would be held at a later date and time determined by the Chairman of the Series Meeting (expected to be 5 March 2001). Seven days' prior notice of any adjourned Series Meetings will be given to the Noteholders affected. The quorum at an adjourned meeting will be two or more holders of the relevant Existing Capital Notes present in person or by proxy.

At each separate (including adjourned) Series Meeting none of Fletcher Challenge, FCIL, Fletcher Building or their subsidiaries or any director of Fletcher Challenge, FCIL or Fletcher Building is entitled to vote.

2. Extraordinary Resolution and Voting Entitlements

As already mentioned, the Capital Notes Arrangement will become binding on the holders of the Existing Capital Notes of each Series if it is approved by Extraordinary Resolution of those holders at a Series Meeting and it is approved by the High Court of New Zealand.

For these purposes, an Extraordinary Resolution is a resolution passed at a meeting of the Noteholders duly convened and held by a majority consisting of not less than three-quarters of the votes cast on a poll.

On a poll every Noteholder who is present in person, by proxy or by a representative will have one vote for every \$1.00 of the Principal Amount of the Existing Capital Notes of the relevant Series held by the Noteholder.

The procedures which will apply at each Series Meeting of the holders of the Existing Capital Notes of each Series, and the 75 per cent majority resolution of Noteholders necessary to approve the Capital Notes Arrangement, were approved by order of the High Court of New Zealand made in accordance with the provisions of Part XV of the Companies Act. These procedures are the same in all material respects as the procedures prescribed by the Trust Deed for meetings of the Noteholders.

Approval Process and Implementation of the Capital Notes Arrangement *continued*

3. Partial Approval of Capital Notes Arrangement

Implementation of the Capital Notes Arrangement is conditional upon the Separation Transaction being implemented. If, for any reason the Separation Transaction is not implemented, the Capital Notes Arrangement will not be implemented, even if it has been approved by the holders of any Series of Existing Capital Notes.

If the holders of any Series of Existing Capital Notes do not pass an Extraordinary Resolution approving the Capital Notes Arrangement at their separate Series Meeting the Capital Notes Arrangement will not become binding on those holders. If this happens, the Capital Notes Arrangement will (subject to satisfaction or waiver of its other conditions) be implemented in respect of the Existing Capital Notes of every Series the holders of which do pass an Extraordinary Resolution approving the Capital Notes Arrangement at their separate Series Meeting.

If none of the separate Series Meetings pass an Extraordinary Resolution approving the Capital Notes Arrangement, the Capital Notes Arrangement will not be implemented, even if the Separation Transaction is implemented.

The position of holders of the Existing Capital Notes of any Series in respect of which the Capital Notes Arrangement does not become binding is set out in Effect of the Separation Transaction on the Existing Capital Notes on page 5.

4. Role of the Trustee

The Trustee of the Trust Deed under which the Existing Capital Notes are presently constituted has not been involved in the formulation of the Capital Notes Arrangement.

The Trustee is not required to form, and has not formed, any opinion on the fairness of the Capital Notes Arrangement.

The Trustee will attend each Series Meeting of Noteholders but will not chair those meetings.

The Trustee has executed the Capital Notes Arrangement Deed but that document does not come into effect, and therefore will not be binding on the Trustee, unless, and except to the extent that, the Capital Notes Arrangement is approved by Extraordinary Resolution of the holders of each Series of Existing Capital Notes and by the High Court of New Zealand.

To the extent that, in respect of the Capital Notes of any Series, the Capital Notes Arrangement is approved by Extraordinary Resolution of Noteholders and by the High Court of New Zealand the Capital Notes Arrangement Deed will become binding on the Trustee who will then take any steps necessary to implement the Capital Notes Arrangement in respect of the Novated Capital Notes in accordance with the Capital Notes Arrangement Deed.

If the Capital Notes Arrangement becomes binding on the Noteholders and the Trustee in respect of some but not every Series of Existing Capital Notes, the Capital Notes Arrangement Deed will not, to that extent,

become binding on the Trustee and the Capital Notes Arrangement will not be implemented in respect of the relevant Existing Capital Notes. If this happens, the Trust Deed will continue in force unamended in respect of those Existing Capital Notes and Fletcher Challenge (by then renamed Fletcher Challenge Forests Limited) and FCIL will continue to be parties to, and bound by, the Trust Deed to that extent.

5. Application to the Court for orders approving the Capital Notes Arrangement

The Capital Notes Arrangement is to be implemented by way of a High Court approved Plan of Arrangement under section 236 of the Companies Act.

Fletcher Challenge has filed an originating application in the Auckland Registry of the High Court for orders approving the Capital Notes Arrangement and making it binding upon all Noteholders. A copy of that application is included as Annexure H. The application is expected to be heard by the Court at Auckland on or about 15 March 2001 at 10am. Noteholders who wish to appear and be heard in relation to the Capital Notes Arrangement are entitled to appear at that hearing.

The Trustee and any Noteholder who wishes to appear and be heard on the application for final orders approving the Capital Notes Arrangement must, on or before 5pm on 13 March 2001, file a notice of appearance or a notice of opposition (both containing an address for service) and, if they oppose the application, any affidavits and a memorandum of submissions on which such holder intends to rely and serve a copy on the address for service for Fletcher Challenge at Bell Gully, Royal & SunAlliance Centre, 48 Shortland Street, Auckland for the attention of A D McDougall or R G Simpson. Within 24 hours of receiving a notice of appearance or a notice of opposition from any holder, Fletcher Challenge will serve upon that holder at that holder's address for service a copy of the affidavits in support of the application for final orders approving the Capital Notes Arrangement.

The only persons entitled to appear and be heard at the hearing of the application for final orders will be:

- Fletcher Challenge;
- FCIL;
- Fletcher Building;
- The Trustee and any Noteholder who files a notice of appearance or a notice of opposition to the application for final orders in accordance with the procedure outlined above.

If the hearing of the application for final orders approving the Capital Notes Arrangement is adjourned, only those persons who have filed and served a notice of appearance or a notice of opposition in accordance with the procedure outlined above need be served with a notice of the adjourned date.

Directors' Interests

K M Vautier is a Director of FCIL and Fletcher Challenge and holds 25,000 Existing Capital Notes as at 31 December 2000.

Taxation Implications Relating to the Redemption of Existing Capital Notes

The taxation implications relating to the redemption of Existing Capital Notes by FCIL are set out in general terms below. The following comments relate only to New Zealand taxes and are based on tax legislation current at the date of this Information Memorandum. Noteholders are advised to seek their own taxation advice in relation to their individual taxation position.

Accrual Rules

The Existing Capital Notes comprise both debt and equity components, the debt component of which is subject to the accrual rules under the Income Tax Act 1994. For Noteholders (other than those who are taxed on a cash basis) and who are either New Zealand resident or whose Existing Capital Notes relate to a business carried on in New Zealand through a fixed establishment in New Zealand, the accrual rules require all income and expenditure from the Existing Capital Notes to be accrued over their term and returned for tax purposes. Noteholders who are taxed on a cash basis are not required to accrue income and expenditure relating to the Existing Capital Notes. Instead, they may account for any income, gain, expenditure or loss arising in respect of the Existing Capital Notes in the income year such income, gain, expenditure or loss is realised. Whether or not a person is taxed on a cash basis will depend on, among other things, the value of debt instruments which are held by that person.

Where the Existing Capital Notes are redeemed, sold or transferred prior to maturity, a gain or loss for tax purposes will arise to the extent of any difference between the acquisition price, (being the issue price for initial investors) for the Existing Capital Notes and the amount received for their sale or transfer. That gain or loss, adjusted for amounts returned in prior income years, must be returned in the income year in which the sale or transfer takes place.

Withholding Tax

New Zealand resident Noteholders and non-resident Noteholders who carry on a business through a fixed establishment in New Zealand will be subject to resident withholding tax. To the extent that the redemption price includes accrued interest, or exceeds the amount originally paid to FCIL on issue of the Capital Notes, the redemption amount will be subject to deduction of resident withholding tax at the rate of 19.5 per cent unless the recipient holds a Certificate of Exemption and produces a copy of that certificate to FCIL (or has already done so). The 19.5 per cent rate of resident withholding tax increases to 39 per cent where the recipient of the deemed interest has not supplied their IRD number to the Registrar. To prevent deduction at that higher rate, Noteholders who do not hold a Certificate of Exemption should enter their IRD number on the Application Form. For joint applications only one IRD number is required. Note that if the Noteholder is exempt from resident withholding tax, a copy of the Exemption Certificate should be attached to the Application Form.

Non-resident Noteholders who do not carry on a business through a fixed establishment in New Zealand will be subject to non-resident withholding tax or the Approved Issuer Levy regime. FCIL is an “approved

issuer” and the Capital Notes are “registered securities” for the purposes of the Approved Issuer Levy provisions in Part VIB of the Stamp and Cheque Duties Act 1971. FCIL may, upon request, subject to being legally entitled to do so and on any terms it requires, agree to deduct and pay an Approved Issuer Levy of 2 per cent on the interest component of the redemption price payable to non-residents of New Zealand who do not have fixed establishments in New Zealand, instead of deducting non-resident withholding tax (as described below). The cost of the levy will be reimbursed by the relevant Noteholder and FCIL will be entitled to deduct the reimbursement from the redemption price payable to such Noteholders.

Under the current provisions of the Income Tax Act 1994, unless the Approved Issuer Levy has been paid by FCIL, the redemption amount to the extent it includes accrued interest or exceeds the amount originally paid to FCIL on issue of the Capital Notes, paid to or on behalf of non-resident Noteholders who do not carry on a business through a fixed establishment in New Zealand, will be subject to a New Zealand non-resident withholding tax at the rate of 15 per cent, (reducing to 10 per cent in the case of residents of certain countries having Double Taxation Agreements with New Zealand).

The non-resident withholding tax is usually a final tax in New Zealand.

FCIL will make such deductions unless it is satisfied by the Noteholder that such deductions are not required by law.

Taxation Implications Relating to the Novation of Existing Capital Notes

The taxation implications relating to the novation of the Existing Capital Notes are set out in general terms below. The following comments relate only to New Zealand taxes and are based on tax legislation current at the date of this Information Memorandum. Noteholders are advised to seek their own taxation advice in relation to their individual taxation position.

Accrual Rules

The Novated Capital Notes comprise both debt and equity components, the debt component of which is subject to the accrual rules under the Income Tax Act 1994. For Noteholders (other than those who are taxed on a cash basis) and who are either New Zealand resident or whose Novated Capital Notes relate to a business carried on in New Zealand through a fixed establishment in New Zealand, the accrual rules require all income and expenditure from the Novated Capital Notes to be accrued over their term and returned for tax purposes. Noteholders who are taxed on a cash basis are not required to accrue income and expenditure relating to the Novated Capital Notes. Instead, they may account for any income, gain, expenditure or loss arising in respect of the Novated Capital Notes in the income year such income, gain, expenditure or loss is realised. Whether or not a person is taxed on a cash basis will depend on, among other things, the value of debt instruments which are held by that person.

Where the Novated Capital Notes are converted, redeemed, sold or transferred prior to maturity, a gain or loss for tax purposes will arise to the extent of any difference between the acquisition price, (being the issue price for initial investors) for the Novated Capital Notes and the amount received for their disposal. That gain or loss, adjusted for amounts returned in prior income years, must be returned in the income year in which the disposal takes place.

Novation

If the Capital Notes Arrangement is approved and implemented, Fletcher Building will assume (by way of novation) the existing obligations of Fletcher Challenge and FCIL in respect of the Novated Capital Notes. The taxation treatment of such novation arrangements is complex. Fletcher Building has received advice to the effect that the novation arrangements under the Novated Capital Notes should not result in the holders of Novated Capital Notes having a liability to tax in that year (other than in respect of any interest accrued). To confirm that position Fletcher Building is seeking a binding ruling from the Inland Revenue Department.

In the event that the binding ruling is not obtained, and the Inland Revenue Department considers that tax is payable by holders of Novated Capital Notes in the year in which the Novated Capital Notes are novated, Fletcher Building will pay the amount of that tax as agent for the holders of Novated Capital Notes up until the next Election Date of the relevant Series of Novated Capital Notes. Fletcher Building will be refunded that amount of tax as the liability is reversed over the remaining term of the Novated Capital Notes. This means that holders of Existing Capital Notes will effectively have no additional tax obligations or liabilities on the novation of their Novated Capital Notes to Fletcher Building.

Withholding Tax

In accordance with current provisions of the Income Tax Act 1994, interest paid or compounded on the Novated Capital Notes to or for the benefit of Noteholders who are New Zealand residents or non residents who carry on a business through a fixed establishment in New Zealand will be subject to resident withholding tax at the rate of 19.5 per cent unless the recipient holds a certificate of exemption and produces a copy of the certificate to Fletcher Building. The 19.5 per cent rate of resident withholding tax increases to 39 per cent where the recipient of the interest has not supplied to the Registrar their IRD number. To prevent deduction at that higher rate Noteholders who do not hold a certificate of exemption should enter their IRD number on the Application Form. For joint applications only one IRD number is required. Note that if the Noteholder is exempt from resident withholding tax, a copy of the exemption certificate should be attached to the Application Form.

Fletcher Building will apply for “approved issuer” status and intends to register the Novated Capital Notes as “registered securities” for the purposes of the Approved Issuer Levy provisions in Part VIB of the Stamp and Cheque Duties Act 1971. Fletcher Building may upon request, subject to being legally entitled to do so and on any terms it requires, agree to deduct and pay an approved issuer levy of 2 per cent on interest paid or credited to non-residents without fixed establishments in New Zealand in lieu of deducting non-resident withholding tax. The cost of the levy will be reimbursed by the relevant Noteholders, and Fletcher Building will be entitled to deduct the reimbursement from the interest paid or credited to those Noteholders.

The non-resident withholding tax is usually a final tax in New Zealand.

Fletcher Building will make such deductions unless it is satisfied by the Noteholder that such deductions are not required by law.

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New 2006 Fletcher Building Capital Notes Offer

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- Main Terms of the New 2006 Fletcher Building Capital Notes
-
- Taxation Implications Relating to the New 2006 Fletcher Building Capital Notes
-

Main Terms of the New 2006 Fletcher Building Capital Notes

The following is a summary of the main terms of the offer of New 2006 Fletcher Building Capital Notes. The offer is being made to holders of March 2001 Capital Notes only. Investors should also refer to the more detailed information in the other sections of this Information Memorandum including the sections entitled Answers to Important Questions and Conditions of New 2006 Fletcher Building Capital Notes and to the Application Form.

Issuer

The Issuer of the New 2006 Fletcher Building Capital Notes is Fletcher Building.

Type of Investment

The New 2006 Fletcher Building Capital Notes are long-term fixed rate unsecured subordinated notes issued by Fletcher Building.

Conditions

The Conditions applicable to the New 2006 Fletcher Building Capital Notes are set out in Annexure C.

Offer Amount

Fletcher Building is offering for subscription New 2006 Fletcher Building Capital Notes to holders of March 2001 Capital Notes of an aggregate principal amount of NZ\$30.9 million plus an amount up to 35 per cent of the Principal Amount of the Existing Capital Notes of any Series the holders of which do not approve the Capital Notes Arrangement at the relevant Series Meeting (the Maximum Issue Amount). Each New 2006 Fletcher Building Capital Note has an issue price of NZ\$1.00.

A holder of March 2001 Capital Notes may apply to reinvest a maximum of 100 per cent of their redemption amount. A description of scaling is contained in the paragraph Over-Subscriptions below. No applications for New 2006 Fletcher Building Capital Notes will be accepted other than from redemption amounts from March 2001 Capital Notes.

Offer Period

The offer of New 2006 Fletcher Building Capital Notes will be open from 1 February 2001 until the earlier of the Closing Date and the date that applications are received and accepted for the Maximum Issue Amount. Fletcher Building has the right to otherwise vary the opening date and the Closing Date.

Allotment of the New 2006 Fletcher Building Capital Notes will occur on the date on which the Capital Notes Arrangement is implemented or, if the Capital Notes Arrangement is not implemented, on the date upon which the Separation Transaction is implemented.

Over-Subscriptions

If the total of all applications by holders of March 2001 Capital Notes to reinvest their redemption amounts into New 2006 Fletcher Building Capital Notes exceeds the Maximum Issue Amount:

- (a) each individual applicant's application will be accepted up to an amount equal to 35 per cent of the Principal Amount of their redemption amount; and
- (b) any deficit remaining after that will be allocated pro rata amongst applicants who apply to have more than 35 per cent of the Principal Amount of their redemption amount reinvested in New 2006 Fletcher Building Capital Notes, pro rata according to the extent to which their applications are for more than 35 per cent of the Principal Amount of their redemption amount.

Interest Rate

The Interest Rate will be 8.75 per cent per annum.

Payment of Interest

The New 2006 Fletcher Building Capital Notes will pay a fixed interest rate calculated from 15 March 2001. Interest accrues on the New 2006 Fletcher Building Capital Notes on a daily basis. The first interest payment will be on 15 September 2001. This payment will be made to the original allottee of the New 2006 Fletcher Building Capital Notes (irrespective of any transfer of the New 2006 Fletcher Building Capital Notes by that allottee prior to 15 September 2001). Subsequent interest payments will be made semi-annually in arrears on each of 15 March and 15 September until the first Election Date (15 March 2006) and will be made to the persons registered as holders of the New 2006 Fletcher Building Capital Notes on the date for determining the entitlement to interest payments (Condition 3.1 of the Conditions in Annexure C, page C2).

Reference should be made to Withholding Tax on page 24 for a summary of withholding tax applicable to interest payments.

Interest not paid itself bears interest and is compounded on each subsequent Interest Payment Date. Non payment of interest does not constitute a default by Fletcher Building.

Fletcher Building has covenanted not to pay any dividends on, or make any distribution in respect of, Fletcher Building Ordinary Shares while any interest payments on the New 2006 Fletcher Building Capital Notes which have not been paid on the due date remain outstanding.

Term

The New 2006 Fletcher Building Capital Notes will have a first Election Date of 15 March 2006. The subsequent Election Date will be determined by Fletcher Building as part of the revised terms it offers to holders of the New 2006 Fletcher Building Capital Notes on the relevant Election Date. On the Election Date Noteholders may either elect:

Main Terms of the New 2006 Fletcher Building Capital Notes *continued*

- (a) to retain some or all of their New 2006 Fletcher Building Capital Notes on the new terms and conditions offered by Fletcher Building; or
- (b) to convert some or all of their New 2006 Fletcher Building Capital Notes into Fletcher Building Ordinary Shares at 98 per cent of the then current value of those shares (as described in Condition 4.4 in Annexure C, page C4).

This rollover process is described in more detail in Condition 4 (Election to Retain or Convert Notes on page C3).

Noteholders may initiate conversion of the New 2006 Fletcher Building Capital Notes only on an Election Date. However, the right to convert may be suspended or forfeited in certain circumstances as described in Condition 4.3 of the Conditions (Conversion of Capital Notes) in Annexure C, page C3.

Fletcher Building option to purchase or redeem

If a Noteholder elects to convert New 2006 Fletcher Building Capital Notes into Fletcher Building Ordinary Shares, Fletcher Building may, instead of issuing Fletcher Building Ordinary Shares, elect to purchase or redeem (or have a nominee purchase or redeem) some or all of such New 2006 Fletcher Building Capital Notes for cash at their Principal Amount plus accrued but unpaid interest.

The New 2006 Fletcher Building Capital Notes will remain in existence unless or until they are either converted into Fletcher Building Ordinary Shares by holders or redeemed by Fletcher Building on an Election Date or purchased by Fletcher Building and cancelled.

Noteholders do not benefit from any capital growth in the Fletcher Building Ordinary Shares and will not participate in any dividend, bonus issue, rights issue, or any other distribution made in respect of the Fletcher Building Ordinary Shares prior to any conversion.

Early election

As described in Condition 4.3 of the Conditions in Annexure C, page C3 if any person, alone or acting in concert with any other person, acquires 70 per cent or more of the Fletcher Building Ordinary Shares or the right to more than 70 per cent of the votes on a poll at a general meeting of Fletcher Building on a matter which holders of Fletcher Building Ordinary Shares are entitled to vote, Noteholders will have the option to convert the New 2006 Fletcher Building Capital Notes to Fletcher Building Ordinary Shares at 98 per cent of the then current value thereof. Fletcher Building may, instead of issuing Fletcher Building Ordinary Shares, elect to purchase or redeem (or have a nominee purchase or redeem) some or all of such New 2006 Fletcher Building Capital Notes for cash at their principal amount together with any interest accrued to the date of purchase or redemption.

Capital Notes may become perpetual in certain circumstances

If Fletcher Building is unable lawfully to issue Fletcher Building Ordinary Shares upon conversion of New 2006 Fletcher Building Capital Notes or if the Fletcher Building Ordinary Shares are not eligible to be quoted on the NZSE at that time, the interest rate payable on the Capital Notes will, with effect from the next Election Date or Early Election Date (as the case may be), be fixed at a rate equal to a margin over the five year New Zealand Government Stock Yield Rate as described in more detail in Condition 4.4(b) of the Conditions in Annexure C, page C5.

Rights on liquidation of Fletcher Building

On a liquidation of Fletcher Building the New 2006 Fletcher Building Capital Notes will cease to be convertible and Noteholders will be entitled to receive the Liquidation Amount. This entitlement is subordinated and described in detail in Condition 2.2 of the Conditions in Annexure C, page C1.

Trustee

The Trustee is Perpetual Trust Limited. The Trustee does not guarantee the repayment of the New 2006 Fletcher Building Capital Notes or the Novated Capital Notes or the payment of interest thereon, or conversion or purchase of the New 2006 Fletcher Building Capital Notes or the Novated Capital Notes.

Trust Deed

The New 2006 Fletcher Building Capital Notes will be constituted by and issued pursuant to the Trust Deed. The Trust Deed sets out the rights of Noteholders and is described in more detail in the section headed Description of the Trust Deed on pages 72 to 75.

Applications

Applications to subscribe for New 2006 Fletcher Building Capital Notes must be for a minimum principal amount of \$2,000 and thereafter in multiples of \$500. Applications must be made on the Application Form enclosed with this Information Memorandum and are to be lodged with Fletcher Building, any member of the NZSE, the Organising Broker or the Registrar on or before the Closing Date.

The aggregate principal amount of the New 2006 Fletcher Building Capital Notes for which each application is made and accepted will be deducted from the proceeds of the redemption of the applicant's March 2001 Capital Notes.

Main Terms of the New 2006 Fletcher Building Capital Notes *continued*

Offer is conditional

The New 2006 Fletcher Building Capital Notes Offer is conditional upon the Separation Transaction being approved and implemented.

If the above condition is not satisfied, all amounts held on behalf of applicants for New 2006 Fletcher Building Capital Notes will be paid to them within five Business Days of non-approval of the Separation Transaction by Fletcher Challenge shareholders. No interest will be paid on such amounts.

Allotment

Allotment of the New 2006 Fletcher Building Capital Notes will occur on the date on which the Capital Notes Arrangement becomes effective (expected to be 23 March 2001). Interest accrues from the date of redemption which will be 15 March 2001.

Quotation

The New 2006 Fletcher Building Capital Notes are intended to be tradeable and application has been made for them to be quoted on the NZSE. Quotation of the New 2006 Fletcher Building Capital Notes on the NZSE is expected to occur following the date of implementation of the Capital Notes Arrangement.

No Certificates

No certificates for the New 2006 Fletcher Building Capital Notes will be issued. A FASTER statement will be forwarded to Noteholders following allotment.

Sale and transfer

Applicants should not attempt to sell New 2006 Fletcher Building Capital Notes until they know whether, and how many, New 2006 Fletcher Building Capital Notes have been allotted to them. Fletcher Building does not accept any liability should any person attempt to sell or otherwise deal with the New 2006 Fletcher Building Capital Notes before their FASTER statements are received by the applicant.

No transfers will be registered during the period of three business days immediately preceding the Final Interest Payment Date nor during the period between the Election Record Date and the Election Date or if the registration would result in the purchaser holding New 2006 Fletcher Building Capital Notes (of any particular Series) with an aggregate principal amount of less than \$2,000. Subject to this minimum holding, transfers of New 2006 Fletcher Building Capital Notes must be in multiples of \$500.

Further issues

Subject to the NZSE Listing Rules, the Australian Stock Exchange Listing Rules (if applicable) and Fletcher Building's Constitution, Fletcher Building may from time to time without the consent of the holders of the Capital Notes (including the New 2006 Fletcher Building Capital Notes), create and issue further capital notes, ordinary shares or other securities or incur indebtedness or issue obligations ranking pari passu in all respects with, junior to, or senior to, the New 2006 Fletcher Building Capital Notes and otherwise on such terms as Fletcher Building may determine. Any such issues of Capital Notes may be subject to appointment of a trustee in respect of such further Capital Notes and to shareholder approval. Any further Capital Notes will be constituted by a deed (in a form agreed to by Fletcher Building and the Trustee) supplemental to the Trust Deed.

Taxation Implications Relating to the New 2006 Fletcher Building Capital Notes Offer

The taxation implications relating to the New 2006 Fletcher Building Capital Notes Offer are set out in general terms below. The following comments relate only to New Zealand taxes and are based on tax legislation current at the date of this Information Memorandum. Noteholders are advised to seek their own taxation advice in relation to their individual taxation position.

Accrual Rules

The New 2006 Fletcher Building Capital Notes comprise both debt and equity components, the debt component of which is subject to the accrual rules under the Income Tax Act 1994. For Noteholders (other than those who are taxed on a cash basis) and who are either New Zealand resident or whose New 2006 Fletcher Building Capital Notes relate to a business carried on in New Zealand through a fixed establishment in New Zealand, the accrual rules require all income and expenditure from the New 2006 Fletcher Building Capital Notes to be accrued over their term and returned for tax purposes. Noteholders who are taxed on a cash basis are not required to accrue income and expenditure relating to the New 2006 Fletcher Building Capital Notes. Instead, they may account for any income, gain, expenditure or loss arising in respect of the New 2006 Fletcher Building Capital Notes in the income year such income, gain, expenditure or loss is realised. Whether or not a person is taxed on a cash basis will depend on, among other things, the value of debt instruments which are held by that person.

Where the New 2006 Fletcher Building Capital Notes are converted, redeemed, sold or transferred prior to maturity, a gain or loss for tax purposes will arise to the extent of any difference between the acquisition price, (being the Issue Price for initial investors) for the New 2006 Fletcher Building Capital Notes and the amount received for their disposal. That gain or loss, adjusted for amounts returned in prior income years, must be returned in the income year in which the disposal takes place.

Withholding Tax

In accordance with current provisions of the Income Tax Act 1994, interest paid or compounded on the New 2006 Fletcher Building Capital Notes to or for the benefit of Noteholders who are New Zealand residents or non residents who carry on a business through a fixed establishment in New Zealand will be subject to resident withholding tax at the rate of 19.5 per cent unless the recipient holds a certificate of exemption and produces a copy of the certificate to Fletcher Building. The 19.5 per cent rate of resident withholding tax increases to 39 per cent where the recipient of the interest has not supplied to the Registrar their IRD number. To prevent deduction at that higher rate Noteholders who do not hold a certificate of exemption should enter their IRD number on the Application Form. For joint applications only one IRD number is required. Note that if the Noteholder is exempt from resident withholding tax, a copy of the exemption certificate should be attached to the Application Form.

Fletcher Building will apply for “approved issuer” status and intends to register the New 2006 Fletcher Building Capital Notes as “registered securities” for the purposes of the Approved Issuer Levy provisions in

Part VIB of the Stamp and Cheque Duties Act 1971. Fletcher Building may upon request, subject to being legally entitled to do so and on any terms it requires, agree to deduct and pay an approved issuer levy of 2 per cent on interest paid or credited to non-residents without fixed establishments in New Zealand in lieu of deducting non-resident withholding tax. The cost of the levy will be reimbursed by the relevant Noteholders, and Fletcher Building will be entitled to deduct the reimbursement from the interest paid or credited to those Noteholders.

The non-resident withholding tax is usually a final tax in New Zealand.

Fletcher Building will make such deductions unless it is satisfied by the Noteholder that such deductions are not required by law.

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Business Descriptions

-
- Fletcher Challenge Limited – Building Operations – Five Year Summary
-
- Fletcher Building after Separation
-
- Fletcher Challenge and FCIL after Separation (Fletcher Challenge Forests)
-
- Key Effects of the Separation Transaction on Fletcher Challenge Forests
-

Fletcher Challenge Limited – Building Operations Selected Financial Data

The following selected statement of financial performance data presented for each of the years in the three year period ended 30 June 2000 and statement of financial position data as of 30 June 2000 and 1999, are derived from the audited financial statements of Fletcher Challenge Limited – Building Operations which have in turn been derived from the audited financial statements of the Fletcher Challenge Group. The financial statements of Fletcher Challenge Limited – Building Operations have been jointly audited by KPMG and PricewaterhouseCoopers in Auckland, New Zealand. The selected statement of financial performance data presented for each of the years ended 30 June 1997 and 1996 and statement of financial position data as of 30 June 1998, 1997 and 1996 is derived and compiled from the audited financial statements of the Fletcher Challenge Group on a basis consistent with the basis of accounting described in the Basis of Presentation in the Fletcher Challenge Limited – Building Operations financial statements. The audited financial statements of Fletcher Challenge Limited – Building Operations as of 30 June 2000, and a report thereon, are included in this Information Memorandum and reference should be made to the audited financial statements, including the notes thereto. See “Fletcher Challenge Limited – Building Operations Financial Statements” included in Annexure D to this Information Memorandum.

Fletcher Challenge Limited – Building Operations Five Year Summary

	Years ended and as at 30 June				
	2000 NZ\$m	1999 NZ\$m	1998 NZ\$m	1997 NZ\$m	1996 NZ\$m
Operating Revenue	2,380	2,665	3,015	3,342	3,583
Operating Earnings ^(a)	127	72	177	170	132
Interest Expense	-34	-35	-44	-45	-46
Earnings before Taxation	93	37	133	125	86
Taxation	-31	-16	1	25	33
Earnings after Taxation	62	21	134	150	119
Equity Earnings		-1	-2	-5	2
Earnings after Equity Earnings	62	20	132	145	121
Minority Interest	1	3	2	1	
Net Earnings	63	23	134	146	121
Net Earnings excluding Equity Earnings	63	24	136	151	119
Total Assets	1,612	1,635	1,956	1,793	1,978
Total Tangible Assets	1,590	1,614	1,942	1,785	1,968
Total Liabilities	640	675	929	905	1,173
Total Ownership Interests	972	960	1,027	888	805
Total Ownership Interests excluding Equity Accounted Earnings	974	962	1,028	893	805
Proforma Net Tangible Assets per Fletcher Building Share (\$) ⁽¹⁾	2.20				
Proforma Net Tangible Assets per Capital Note (\$)	3.87				
Proforma Net Assets per Fletcher Building Share (\$) ⁽¹⁾	2.26				
(a) Unusual Items (included in Operating Earnings)					
Gain on Disposal of Affiliates ⁽²⁾					6
Restructuring and Separation Costs ⁽³⁾	-33				
Closure Costs ⁽⁴⁾				-20	-36
Permanent Impairment ⁽⁵⁾	-10	-49			-11
Other Gains ⁽⁶⁾					7

(1) Based on the number of Fletcher Building Ordinary Shares to be issued under the Building Transaction (345 million shares).

(2) Gain on Disposal of Affiliates related to the gain on the sale of Fletcher Challenge Limited – Building Operation's shares in AFFCO of \$6 million (June 1996).

(3) Restructuring and Separation Costs relate to costs of \$3 million associated with the separation of the Fletcher Challenge Group targeted share structure (June 2000) and the write off of \$30 million upon the reorganisation of the Fletcher Challenge Employee Educational Fund (June 2000).

(4) Closure Costs related to the exit from construction activities of \$20 million (June 1997) and \$36 million (June 1996).

(5) Permanent Impairment relates to the carrying values of the investments in the Fletcher Challenge Limited – Building Operations activities in Fiji of \$10 million (June 2000), the Xinda Iron and Steel operations in China of \$49 million (June 1999), and Group Rentals of \$3 million (June 1996), and a writedown of sawmilling assets of \$8 million (June 1996).

(6) Other Gains related to the settlement of the log price arbitration with Forestry Corporation of New Zealand of \$7 million (June 1996).

Fletcher Challenge Limited – Building Operations

Selected Financial Data *continued*

During the five year period ended 30 June 2000, there were no material changes in the business activities of Fletcher Challenge Limited – Building Operations, but there have been a number of changes to the positions within those business activities. These include:

- the expansion of concrete activities in Peru and Bolivia between 1996 and 1999;
- the purchase of Fletcher Aluminium in 1996;
- the purchase of Hume Industries in 1997;
- the purchase of The Building Depot merchant chain in 1997;
- the purchase of Hire A Hubby in New Zealand in 2000;
- the exit of construction activities in the United States, Asia and the North Pacific and the downsizing of construction activities in Australia between 1996 and 2000; and
- the exit from Xinda Iron and Steel operations in China in 1999.

There were no material changes to the Accounting Policies of Fletcher Challenge Limited – Building Operations in the five year period ended 30 June 2000.

The selected financial data of Fletcher Challenge Limited – Building Operations presented above is not necessarily indicative of what might have occurred had Fletcher Challenge Limited – Building Operations been operating as a separate legal entity.

Fletcher Building after Separation

Overview of the Building Transaction

If the conditions to the Building Transaction and the Energy Transaction are satisfied, the Building Transaction will result in the separation of the Building Division into a stand alone company, Fletcher Building. Fletcher Building is a New Zealand-headquartered company, incorporated for the purpose of acquiring and continuing the operations of the Building Division.

The Building Transaction involves two principal components:

- Fletcher Building (through its wholly-owned subsidiary, Building Holdings Limited) will acquire all of the Fletcher Challenge Building Shares outstanding on the Effective Date (expected to be on or about 23 March 2001) and in exchange, Fletcher Building will issue to the holders of such shares one fully paid Fletcher Building Ordinary Share for each Fletcher Challenge Building Share;
- Fletcher Building will acquire from FCIL the operations, assets and liabilities attributed to the Building Division and in exchange FCIL will receive from Fletcher Building all of the issued shares in Building Holdings Limited (which will then hold all the Fletcher Challenge Building Shares) together with a cash payment equal to the sum of:
 - the Fletcher Challenge Group debt attributed to the Building Division as at the closing of the Building Transaction (including accrued interest);
 - the amount equivalent to that which would be required, as at the Effective Date, to purchase New Zealand Government treasury securities sufficient to defease the Principal Amount of the Existing Capital Notes attributed to the Building Division plus accrued interest on those Existing Capital Notes less the aggregate of the principal of, and accrued interest on, the Novated Capital Notes and the principal of the New 2006 Fletcher Building Capital Notes;
 - the Building Division's share of the total costs of dismantling Fletcher Challenge's targeted share structure and separating the Building Division from the Fletcher Challenge Group; and
 - the amount of the cash payment made by Fletcher Challenge Energy Limited for tax assets attributed to the Building Division but transferred to the Energy Division.

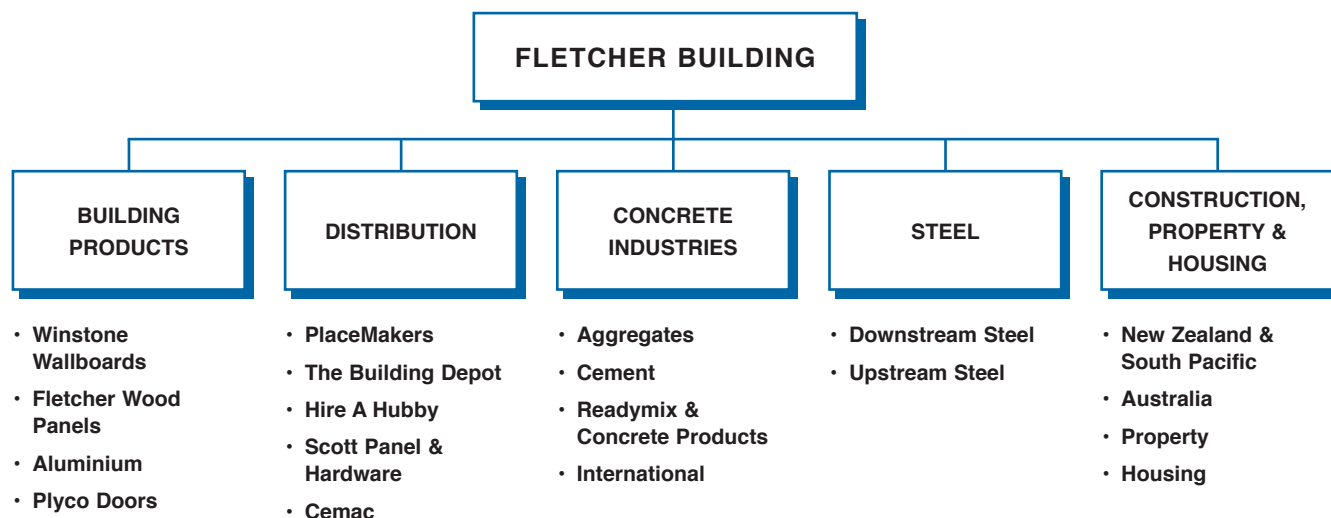
Business Overview

Following implementation of the Building Transaction, Fletcher Building's business will consist of all of the activities historically conducted by the Building Division and reflected in the Fletcher Challenge Limited – Building Operations Financial Statements set out in Annexure D to this Information Memorandum. These comprise all the Fletcher Challenge Group's operations and activities in building products, distribution, concrete, steel, construction, property and housing. In this section Fletcher Building means Fletcher Building after implementation of the Building Transaction (unless used in relation to historical information, when Fletcher Building means the Building Division).

Fletcher Building after Separation *continued*

Fletcher Building is:

- New Zealand's sole manufacturer of gypsum plasterboard;
- a significant participant in the New Zealand steel industry;
- a major producer of aggregate, cement and concrete products in New Zealand and South America;
- wood fibre panel manufacturer with associated value adding operations;
- an extruder of aluminium components for windows and doors;
- a distributor of a wide range of building materials in New Zealand;
- a substantial construction contractor in New Zealand, Australia and the South Pacific Islands; and
- a major builder of residential homes in New Zealand.



Strategy

Fletcher Building is currently conducting a full strategic review of its operations. The review is being led by Alexander Töldte, the new Chief Executive Officer. The strategy that emerges from this review will be considered and, if appropriate, approved by the board of Fletcher Building.

In the short-to-medium term the focus will be on ensuring that the financial performance of Fletcher Building's business activities is improved to international levels.

As part of the strategic review, management will be reviewing each business. This review is to establish

the ability of each business to create and sustain a market leadership position, to add economic value and to play a strategic role in the portfolio of businesses that Fletcher Building will take forward. A further objective of the review process is to identify distinctive operating capabilities that may be applied to growth opportunities in the same or similar industries.

As part of this process it is highly likely that there will be a realignment of Fletcher Building's existing portfolio of businesses.

Prospects and forecasts

With more than 70 per cent of Fletcher Building's turnover historically having been attributable to the New Zealand market, trading performance is affected by the performance of the New Zealand economy as a whole.

Since 30 June 2000 there has been a significant softening in the residential construction markets throughout New Zealand. Although this has been partly offset by an increase in the non-residential construction markets, the overall effect is negative. In the residential sector dwelling consents have declined in value by 19 per cent (at an annualised rate) for the four months ending October 2000 compared to the 12 months ended 30 June 2000, whilst in the commercial sector, the value of work put in place has risen by 19 per cent. Most forecasters are predicting that the current depressed residential activity levels will continue through the remainder of this financial year.

While the decline in the NZ dollar has provided a catalyst for export oriented industries, the domestic economy remains relatively flat. Fletcher Building considers a key to a sustained uplift in the domestic economy to be a continued flow through of export earnings into the domestic sector and more importantly into consumer confidence.

In Australia, activity in the construction sector (both residential and commercial) has softened. This is expected to lead to more competitive pricing pressure for Fletcher Building's businesses exporting into this market and possibly more competition for our businesses in New Zealand.

With respect to Fletcher Building's South American operations, the business activity level in Peru is expected to improve, assuming a continued stabilisation of the political situation. In Bolivia the economic conditions have deteriorated significantly during the calendar year 2000, and the short-term outlook is uncertain.

For further discussion on the individual business operations and of specific risks which could materially affect the prospects of Fletcher Building, see the "What are my risks?" section on page 97 of this Information Memorandum.

Fletcher Building after Separation *continued*

Selected financial information

The following table sets out selected financial information for those operations for the years indicated.

	1999-00	1998-99 (In NZ\$ millions)	1997-98
Operating Revenue			
Building Products	299	262	278
Distribution	359	286	279
Concrete Industries			
Aggregates	68	62	67
Cement	64	55	59
Readymix & Concrete Products	234	227	246
International	72	70	51
Total Concrete Industries	438	414	423
Steel			
Upstream Steel	123	111	133
Downstream Steel	294	277	271
China		82	96
Total Steel	417	470	500
Construction, Property & Housing			
Australia & Asia	162	157	217
New Zealand & Pacific	567	904	871
United States-Mainland	6	35	323
Housing	123	127	112
Total Construction, Property & Housing	858	1,223	1,523
Corporate	9	10	12
Total Operating Revenue	2,380	2,665	3,015

EBIT	1999-00	1998-99 (In NZ\$ millions)	1997-98
Building Products	54	32	45
Distribution	12	6	10
Concrete Industries			
Aggregates	15	17	18
Cement	39	32	38
Readymix & Concrete Products	13	8	23
International	-11	2	-1
Total Concrete Industries	56	59	78
Steel			
Upstream Steel	6	1	18
Downstream Steel	25	18	26
China	-2	-11	-11
Total Steel	29	8	33
Construction, Property & Housing			
Australia & Asia	-8	-1	-8
New Zealand & Pacific	18	11	12
United States-Mainland	2	2	-2
Housing	6	4	7
Total Construction, Property & Housing	18	16	9
Corporate	1		2
Total EBIT before Unusual Items	170	121	177
Unusual Items ¹	-43	-49	
Total EBIT	127	72	177

1 Unusual items includes restructuring and separation costs of \$3 million associated with the separation of the Fletcher Challenge Group targeted share structure (30 June 2000), the write off of \$30 million upon the reorganisation of the Fletcher Challenge Employee Education Fund (30 June 2000), and permanent impairment relating to the carrying values of the investments in the Building Division's activities in Fiji of \$10 million (30 June 2000) and the Xinda Iron and Steel operations in China of \$49 million (30 June 1999).

Fletcher Building after Separation *continued*

Building Products

Building Products addresses customer needs for solutions based on wood based panels, gypsum plasterboard, aluminium windows, building papers and doors.

Industry overview and competitive position

The Building Products businesses have significant market shares in many of the sectors in which they operate. Winstone Wallboards is the sole domestic producer of gypsum plasterboard, and Plyco Doors is the largest door manufacturer (by sales) in New Zealand.

The Building Products businesses are highly integrated both among themselves and with Fletcher Building's other businesses. For example, Plyco Doors sources raw board from Fletcher Wood Panels. Fletcher Wood Panels' products are distributed to the furniture and joinery industry by Scott Panel & Hardware, which is Fletcher Wood Panels' largest customer. Fletcher Wood Panels' second largest customer is PlaceMakers.

Winstone Wallboards

Approximately 65 per cent of Winstone Wallboards' products are sold to the New Zealand residential housing market, with the balance being sold to the New Zealand commercial construction market. Winstone Wallboards has distribution centres in Auckland, Wellington and Christchurch to support merchant networks such as PlaceMakers. In the year ended 30 June 2000, PlaceMakers, together with the Building Depot, accounted for approximately 36 per cent of Winstone Wallboards' sales. The four other national building supply chains in New Zealand accounted for approximately 41 per cent of Winstone Wallboards' sales.

Winstone Wallboards is New Zealand's sole manufacturer of gypsum plasterboard, which it sells together with associated drywall systems, products and services. In the year ended 30 June 2000, Winstone Wallboards produced 25.5 million square metres of gypsum plasterboard and supplied approximately 94 per cent of the New Zealand market.

Winstone Wallboards began producing gypsum plasterboard in 1927 and manufactures and markets a broad line of gypsum plasterboard and other gypsum products. These are used to finish interior walls and ceilings in residential and commercial structures. Winstone Wallboards markets most of its products under the "Gib" brand name. Winstone Wallboards also manufactures and/or distributes related products including jointing cements, cove cornice, fixing and jointing accessories and surface sealer.

Demand for its wallboard products is affected by the level of new residential and commercial construction activity and by the demand for repair and remodelling of existing residential and commercial properties. These industries are cyclical, being sensitive to fluctuations in the general level of economic activity. Exports are not significant.

Winstone Wallboards has plants in Auckland and Christchurch. The primary raw materials used to produce gypsum plasterboard include gypsum rock, gypsum linerboard and energy. Because there is no source of

gypsum rock in New Zealand, Winstone Wallboards imports all of its requirements from Australia, currently from Gypsum Resources (a Boral/CSR joint venture), although gypsum is readily available from other sources outside New Zealand.

Gypsum linerboard is purchased in New Zealand but is readily available from other sources without price or quality penalty.

Fletcher Wood Panels

Fletcher Wood Panels products are sold into the furniture and joinery and building and construction market sectors. Approximately 59 per cent of its revenue comes from the furniture and joinery market and 41 per cent from the building and construction market. Of Fletcher Wood Panels' total revenue for the year ended 30 June 2000, 54 per cent was generated in New Zealand.

Fletcher Wood Panels' products are manufactured at seven sites. Manufacturing processes include:

- two particle board plants;
- a medium density fibreboard (MDF) plant;
- a hardboard and softboard plant;
- two low pressure melamine (LPM) laminating plants (one in New Zealand and one in Australia);
- a joint venture in a MDF based mouldings/millwork plant; and
- a branded building system operation based on particle board and MDF.

With these operations, Fletcher Wood Panels is a diverse producer of composite wood based panels in New Zealand.

Fletcher Wood Panels has significant market shares in New Zealand. For the year ended 30 June 2000 these are estimated at:

- MDF 34 per cent
- Particle board 70 per cent
- LPM 52 per cent
- Hardboard 95 per cent
- Softboard 100 per cent

During this period sales to Scott Panel & Hardware and PlaceMakers, integral parts of Fletcher Challenge Building's distribution network, accounted for approximately 18 per cent and 11 per cent, respectively, of Fletcher Wood Panels' sales.

Fletcher Wood Panels has an active strategy to move away from commodity products. In particular, Melteca (Fletcher Wood Panels' LPM brand) has developed a colour/décor franchise for the high value fashion end of the New Zealand interior solutions market. This colour and service model is being introduced to the Australian market where Fletcher Wood Panels has recently opened its second LPM plant.

Fletcher Building after Separation *continued*

The wood panels industry is characterised by large capacity additions which, in the Pacific Rim, have often been driven by resource availability rather than market demand. The Asian markets are served by many international suppliers and competition is intense. Product quality and prices are key factors in these markets. Historically, approximately 70 per cent of Fletcher Wood Panels' MDF production has been sold internationally where prices have fallen in response to low demand and increased MDF production capacity.

In New Zealand, there are currently four MDF manufacturers: Fletcher Wood Panels, Canterbury Timber Products, which is owned by Carter Holt Harvey, Nelson Pine Industries, which is owned by Sumitomo Forestry, and Rayonier Inc., a United States based forestry company. Each manufacturer is capable of supplying the entire New Zealand market and, as a result, excess volume is exported.

Fletcher Wood Panels used a total of 198,000 oven dried tonnes of fibre sourced from Fletcher Challenge Forests in the year ended 30 June 2000.

The following table shows the production, capacity and operating rates for Fletcher Wood Panels' major products during the periods indicated.

	1999-00	1998-99	1997-98
MDF (000 m ³)			
Production	128	91	110
Capacity	160	160	160
Operating Rates	80%	57%	69%
Particleboard (000 m ³)			
Production	93	73	74
Capacity	130	130	130
Operating Rates	72%	56%	57%
Hard/Softboard (000 m ³)			
Production	23	23	29
Capacity	44	44	44
Operating Rates	52%	52%	66%
Total Wood Panels (000 m ³)			
Production	244	187	213
Capacity	334	334	334
Operating Rates	73%	56%	64%

Aluminium

Fletcher Aluminium is involved in the manufacture and distribution of mill finish and powder coated aluminium extrusions and distributes accessories and imported roll and plate.

Fletcher Aluminium serves its customers through an extensive franchise distribution network of approximately 100 fabricators operating throughout New Zealand. The fabricators assemble the aluminium components into windows and doors and market the products under six Fletcher Aluminium brands.

Currently, export sales comprise 21 per cent of extrusion production, with approximately 70 per cent of exports going to Australia. Exports comprise both aluminium window systems and aluminium extrusions manufactured for other customers.

In April 2000, Fletcher Aluminium sold its single press extrusion operation in Hamilton, New Zealand to Capral Aluminium NZ Limited. The sale reduced Fletcher Aluminium's extrusion capacity by 3,500 tonnes per annum to 9,000 tonnes per annum.

Fletcher Aluminium operates two presses at its Auckland manufacturing plant, has four distribution centres in New Zealand and one distribution centre in Australia. It has a remelt facility in Auckland where it recycles scrap.

There are five manufacturers in New Zealand operating eight extrusion presses. Approximately 80 per cent of the aluminium extrusions produced in New Zealand are used in building and construction related industries. Imports account for approximately 2 per cent of the New Zealand market.

Historically, margins have not varied with aluminium prices because there has been a strong correlation between world aluminium prices and aluminium extrusion prices in the New Zealand market. Aluminium ingots are purchased at international prices.

Plyco Doors

Plyco Doors manufactures interior doors. It sells a wide range of doors and other associated products within New Zealand and the Pacific Rim. Plyco Doors purchases products produced by Fletcher Wood Panels and is a major supplier of doors to PlaceMakers and Fletcher Residential.

Fletcher Building after Separation *continued*

Distribution

The Distribution businesses have a national presence in New Zealand and are major channels to market for Fletcher Building's manufactured products. Fletcher Building operates four distribution channels in New Zealand: PlaceMakers, The Building Depot, Hire A Hubby and Scott Panel & Hardware. PlaceMakers is the largest, with a chain of 54 outlets.

PlaceMakers

PlaceMakers focuses predominantly on the trade and project driven "Do It Yourself" (DIY) markets. Currently, 37 of the 54 outlets operate under a 50/50 joint venture franchise arrangement with the local branch operators. PlaceMakers manufactures wall frame and roof trusses, at strategically placed manufacturing units to support local branches.

The Building Depot

The Building Depot has 10 outlets. These are all based in urban areas. The Building Depot is a "No Frills" brand that operates on a low cost base. This is reflected in competitive prices to consumers. The Building Depot operates with a basic range of building materials, hardware and home improvement products that are essential for the cash and carry DIY retail customer.

Hire A Hubby

Hire A Hubby is a nation-wide franchise organisation with over 90 franchisees. It provides solutions for the "Do It For Me" customer segment and also provides an installation solution for the same customers for products sold by PlaceMakers. Hire A Hubby provides a service solution for home maintenance and home improvement and accordingly is an effective channel for the installation of building material products.

Scott Panel & Hardware

Scott Panel & Hardware is a specialist marketer and distributor of product and value added services to the New Zealand furniture and joinery market. This market comprises numerous small independent businesses. Scott Panel & Hardware supports these customers by providing a bundle of all the components needed for their businesses together with computer design and optimisation software, business support services from debtor management to logistics, and supply chain management.

Cemac

Cemac (Hong Kong) operates in Hong Kong and China. It supplies and installs commercial building interior products, particularly suspended ceiling systems, wall partitions and plasterboard, predominantly sourced from USG Corporation and Winstone Wallboards.

Concrete Industries

Concrete Industries manufactures and distributes aggregates, cement, readymix concrete, concrete masonry, paving products, prestressed and precast concrete products, concrete pipes and plastic pipes.

Industry overview and competitive position

The businesses in which Concrete Industries competes in New Zealand are characterised by two national competitors (one of which is Concrete Industries) and numerous local and regional competitors. Concrete Industries' major products and estimated New Zealand market shares in the year ended 30 June 2000 were:

- aggregates 26%
- cement 50%
- readymix 35%
- concrete products 40%-70%

Milburn New Zealand ("Milburn"), a wholly-owned subsidiary of Holderbank, a Swiss-based cement manufacturer with global interests, is the other integrated domestic producer.

Fletcher Building considers that the integrated nature and geographic spread of Concrete Industries' domestic operations, together with the cost of transportation and "island" nature of New Zealand, place it in a favourable position with respect to imports and other competitors.

In the year ended 30 June 2000, higher levels of construction activity contributed to an increase in the consumption of cement and aggregates. However, since 30 June 2000 construction activity in New Zealand has declined.

New Zealand production

The following table shows Concrete Industries' historical production volumes.

	1999-00	1998-99	1997-98
Aggregates (million m ³)	4.3	4.1	4.0
Cement (000 tonnes)	595	510	549
Readymix Concrete (000 m ³)	828	812	855
Concrete Products (million m ³)	1.6	1.6	1.7

Fletcher Building after Separation *continued*

Aggregates

Winstone Aggregates is New Zealand's largest quarrying and sand extraction business with an estimated 26 per cent market share. It is involved in the extraction, processing, transport and sale of natural raw materials used primarily in the road works, building and construction industries. The principal raw materials produced are crushed rock, sand, shingle and scoria.

Winstone Aggregates operates:

- 17 hard rock quarries;
- seven shingle plants;
- six sand plants;
- one scoria pit; and
- four replenishing sand resources.

The majority of these quarrying operations are located at strategic positions throughout the North Island of New Zealand. Since late 1995, Winstone Aggregates has expanded geographically into the South Island of New Zealand.

Winstone Aggregates estimates it has over 85 million cubic metres of either proven or indicated reserves. While reserve life varies from deposit to deposit, on average, and based on current extraction rates, reserves are estimated to be sufficient for more than 30 years. In 1998-99, resource consent was received to extend the extraction life of the Lunn Avenue quarry in Auckland to the end of calendar 2002. It is anticipated Lunn Avenue will be exhausted by the end of calendar 2001, at which time volumes will need to be replaced by new resources in the Auckland region that are currently being developed, or are in the permitting phase. A plant upgrade at the Hunua quarry in Auckland to increase capacity by one million tonnes per annum was completed in late 2000.

The aggregates business is capital intensive and characterised by high fixed costs. Profitability is very sensitive to changes in Winstone Aggregates' sales and production volumes. Transportation costs represent a significant portion of the selling price. Historically, this factor has limited the geographic area that could be serviced from any particular resource. However, the high cost of establishing new bases of operations, together with increasing customer demands for quality product, has changed the nature of the business and made greater geographic penetration a necessity. Through an arrangement with Tranz Rail, a New Zealand railway company, Winstone Aggregates has been able to extend its geographic distribution within New Zealand.

Approximately 55 per cent of the aggregates sold by Winstone Aggregates are used in road works. Winstone Aggregates' road works customers include local government authorities and a number of contractors engaged in road construction and maintenance.

The remaining 45 per cent of the aggregates sold by Winstone Aggregates are used in the production of concrete and concrete products. Of Winstone Aggregates' total sales in the year ended 30 June 2000, 24 per cent were made to Firth for its production of concrete and concrete products.

Demand for aggregates is determined primarily by the overall level of construction and road works activity in New Zealand. The level of spending by Transit New Zealand (the Government agency responsible for road works) and local governmental authorities is a significant demand determinant for the volume of aggregates used for road works. The level of new residential subdivisions and commercial development are the key determinants for the volume of aggregates used for concrete production. While construction levels and demand tend to track the general level of economic activity in New Zealand, and thus are cyclical in nature, governmental spending on roads is less influenced by these factors and therefore tends to be more stable. The substantial road works infrastructure within New Zealand provides strong demand for maintenance materials.

Cement

Golden Bay Cement ("Golden Bay") is one of the two cement manufacturers in New Zealand, the other being Milburn. Golden Bay's dry process cement plant at Portland in the North Island of New Zealand has an annual clinker production capacity in excess of 550,000 tonnes and a cement milling capacity of approximately 750,000 tonnes.

Golden Bay's customers are:

- readymix concrete producers (including Firth);
- concrete product manufacturers (including Firth and Humes);
- building materials distributors (including the PlaceMakers operations);
- paving and construction contractors; and
- other major users of cement board cladding, concrete roof tiles, concrete pipes and road stabilisation materials.

Sales by market segment for the year ended 30 June 2000 were as follows: readymix 61 per cent, masonry 12 per cent, merchants 8 per cent, precast 1 per cent, pipes and tiles 2 per cent and exports 16 per cent. Sales to Firth and PlaceMakers accounted for 49 per cent and 3 per cent of total sales respectively.

Cement is sold in bulk form and in multiwall bags. Bulk cement is distributed using Golden Bay's bulk cement vessel and bulk road tankers. Golden Bay's distribution network is based around customer service centres strategically located near port facilities around New Zealand. Golden Bay exports bagged cement to Pacific Island countries.

The manufacture of cement is capital intensive. Because of the high fixed costs involved, profitability is very sensitive to changes in sales and production volumes.

The principal raw materials in the production of cement at Golden Bay's Portland plant are cement rock and crystalline limestone, which are used in a ratio of approximately 3:1. Golden Bay obtains its cement rock and limestone by mining and extraction from quarries that it owns or leases. These quarries are located in close proximity to the Portland plant. Golden Bay considers that the estimated recoverable cement rock and limestone reserves in these quarries will permit it to operate the Portland plant at its

Fletcher Building after Separation *continued*

present production capacity for approximately 40 years. The principal source of fuel used at Portland is and will continue to be coal. Large resources of coal are available in New Zealand with useable resources throughout the Waikato region in the North Island and the West Coast of the South Island.

Readymix and Concrete Products

Firth is a major producer of readymix concrete, concrete masonry and associated products (including bricks, paving, other cladding and bagged products), prestressed and precast concrete products and pipes.

Readymix Concrete

Firth sells readymix concrete to building contractors and others engaged in residential construction, commercial and industrial construction and public works and infrastructure projects. Demand for readymix concrete depends upon the level of construction activity, which tends to track general economic conditions and is therefore cyclical. Firth's major competitors include Milburn and the associated Allied group of companies. Firth and these two competitors collectively supply around 60 per cent of the New Zealand market, with the balance supplied by a number of regionally based operators. Firth purchases approximately 85 per cent of its cement from Golden Bay and approximately 50 per cent of its aggregates requirements from Winstone Aggregates.

Because of the specialised transportation requirements and the perishability of readymix concrete, producers typically market their products within a short distance of the mixing facility. Firth operates 52 fixed plants, seven joint venture plants and two mobile plants located throughout New Zealand, most of which are modern facilities. There are both centrally mixed and dry batched transit mix operations in use. Computer controlled batching systems are predominant in all major markets. Concrete is delivered to customers through a fleet of trucks and concrete pumping services are provided nationally from mobile pumps.

Concrete Products

Firth is New Zealand's largest manufacturer and distributor of concrete masonry and associated products. Products include hollow blocks, bricks, and a wide range of paving and retaining wall products. Firth also manufactures precast concrete and dry bagged concrete and mortar mixes. Concrete products are manufactured at seven masonry plants, two joint venture plants and at two dry mix bagging plants.

Concrete Products are sold to building contractors and are distributed through building materials merchants (including PlaceMakers). Sales to other Fletcher Challenge companies accounted for approximately 22 per cent of Firth's sales in the year ended 30 June 2000.

Prestressed and Precast Concrete Products

Stresscrete, a division of Firth, produces a variety of prestressed concrete products at nine operating plants, including extruded hollow core flooring, double tees, unispan and interspan flooring, shell beams, solid columns and beams, power poles and railway sleepers. Its main customers are the commercial and

civil construction industries. Current annual capacity of Stresscrete is 250,000 square metres of extruded hollow core flooring, around 300,000 square metres of other prestressed flooring and 75,000 tonnes of general precast products.

Pipes

Hume Industries' ("Humes") single shift production capacities for concrete pipes and pre-cast concrete products are 100,000 tonnes and 40,000 tonnes per year, respectively. Humes also distributes plastic pipes and fittings. Humes purchases significant amounts of cement and aggregates from Golden Bay and Winstone Aggregates.

In October 2000, Humes purchased an established manufacturer of polyethylene pipes and fittings. In general, these products are sold into the same industrial market segments as concrete pipes but with a particular strength in the gas sector.

International

Since 1994-95, Concrete Industries has invested approximately NZ\$120 million in Peru and Bolivia. The Peruvian business includes readymix concrete, concrete products and aggregates positions. In Bolivia, Concrete Industries has a 130,000 tonnes per year cement plant, a concrete products and readymix business and a steel processing operation.

Concrete Industries has also made minor investments in Asia and the Pacific. In Fiji, Concrete Industries has four readymix plants, two aggregate operations, two prestress and precast sites and a minority share in a small cement plant. Production was disrupted in calendar 2000 by political difficulties and related economic problems. Management has taken action to reduce overhead costs and any further restructuring will depend upon how quickly the market in Fiji recovers.

Since 1996-97, Concrete Industries has established two readymix plants in Bangalore and one in Hyderabad, India. The Indian operations were sold into a 50/50 joint venture owned by the Fletcher Challenge Group and Hanson Plc (previously Pioneer International Limited) for NZ\$8 million during 1998-99.

Steel

Steel comprises steel manufacturing, processing and distribution. Pacific Steel manufactures steel bar and rod products in Auckland and a number of downstream businesses carry out further value added manufacturing and the merchandising of steel related products, wire products, metal, roofing, structural building products and coated coil. Steel has a 50 per cent equity interest in Sims Pacific Metals ("Sims Pacific"), a company engaged in ferrous and non-ferrous secondary metals recycling.

Fletcher Building after Separation *continued*

The production statistics of Steel's key units are summarised below for the periods indicated.

Steel Activity	1999-00	1998-99 (In thousands of tonnes)	1997-98
Billet	175	135	165
Bar	68	70	84
Rod	83	60	44
Merchandising	89	86	86
Roofing	7.2 ⁽¹⁾	7.1 ⁽¹⁾	7.0 ⁽¹⁾

(1) Millions of lineal metres

Industry overview and competitive position

There are two manufacturers of steel in New Zealand: Pacific Steel and BHP New Zealand Steel Limited ("BHP NZ Steel"). BHP NZ Steel is 100 per cent owned by BHP, Australia's largest steel producer.

In steel manufacturing, Pacific Steel and BHP NZ Steel are not major competitors because they produce fundamentally different products. Pacific Steel manufactures long bar and rod steel products while BHP NZ Steel manufactures flat steel products.

Pacific Steel faces import competition from a number of sources. The downstream processing and distribution activities of Steel face both regional and national competition. Affiliates of BHP and OneSteel (one of Australia's largest steel producers) are competitors of and suppliers to several of the downstream businesses.

Demand for steel is closely linked to the levels of economic activity, particularly in the construction and rural sectors.

Downstream Steel

Fletcher EasySteel is a major merchant of steel related products throughout New Zealand. Its distribution capability includes a nation-wide network of branches, metal processing and reinforcing fabrication facilities. Fletcher EasySteel offers a comprehensive range of services, ranging from an ex-stock supply of mild steel, alloy steels, aluminium, stainless steel, welding and fastening products, pipe and fittings, to the processing of flat rolled product and plate. Services also include sheeting, slitting, profile cutting and guillotining its steel products to customer requirements.

Fletcher EasySteel sources approximately 25,000 tonnes per annum of long products from Pacific Steel and 30,000 tonnes of flat products from BHP NZ Steel. Fletcher Reinforcing is a reinforcing fabrication service to construction sites, precasters, piling contractors and builders throughout New Zealand.

Pacific Coilcoaters is one of two coil painting businesses in New Zealand. At Pacific Coilcoaters, zincalume and galvanised steel coil are treated and coated with a protective and decorative paint coating in a continuous factory controlled process. Product is painted to order for customers who rollform it into profiles for roofing and cladding. A wide range of standard colours are available and Pacific Coilcoaters

has the ability to produce small quantities with short lead times. BHP NZ Steel supplies almost all of Pacific Coilcoaters' steel requirements.

Dimond Industries ("Dimond") is New Zealand's largest manufacturer and distributor of long run metal roofing, structural building products, and profile fibreglass sheeting. Dimond manufactures a wide range of products for both commercial and residential applications. Dimond's market is predominantly New Zealand based, with small volumes being sold to Australia and the Pacific Islands.

CSP Pacific manufactures and supplies steel based products for civil engineering applications in infrastructure development, forestry and agriculture. The products include culvert pipes, roadside barriers, lighting poles, steel truss and plate girder bridges and towers for telecommunication applications.

Upstream Steel

Pacific Steel operates an electric arc furnace and a rolling mill. These are located in Auckland, New Zealand and manufacture reinforcing bar, merchant bar and wire rod from scrap. Pacific Steel expects to continue to sell the majority of its output in New Zealand, where its market share was greater than 85 per cent in the year ended 30 June 2000.

Pacific Steel's customers are steel merchants (43 per cent) and steel processors (57 per cent). In the year ended 30 June 2000, 53 per cent of Pacific Steel's total sales were to Fletcher Building's Steel operations. Pacific Steel's major external customers during that period were Steel & Tube in New Zealand (50.1 per cent owned by OneSteel) and Steelplus. Pacific Steel's export strategy is focused on niche markets where a competitive advantage over international competitors is held in terms of quality, lead time and order size.

Pacific Steel sources more than 90 per cent of its scrap through Sims Pacific which collects scrap from throughout New Zealand and offshore and supplies both Pacific Steel (its largest customer) and the export market.

Pacific Wire and Cyclone manufacture wire and wire products, respectively. They are the only fully integrated wire mill and wire products manufacturer in New Zealand. Their current product range focuses primarily on the farming market and includes mesh, hex netting, fencing wire, barbed wire, fabricated fences, bright wire and galvanised wire. Their customers are steel merchants, rural merchants, wire processors and building product merchants. Approximately 90 per cent of production is sold domestically, with the balance being exported. Pacific Wire purchases all of its raw material (wire rod) from Pacific Steel.

Construction, Property and Housing

Construction

Headquartered in New Zealand, Fletcher Construction operates in New Zealand, Australia and the South Pacific. Fletcher Construction has over the last five years exited its international construction activities in the United States, Asia and the North Pacific region and down-sized its activities in Australia.

Fletcher Building after Separation *continued*

Fletcher Construction operates through four major divisions:

- Building/Interiors;
- Engineering;
- South Pacific; and
- Australia.

Fletcher Construction is active in most areas of New Zealand and also has offices in Papua New Guinea, Fiji, Solomon Islands, Western Samoa, Vanuatu, Tonga, American Samoa, Sydney and Melbourne. In New Zealand and the South Pacific, it is the largest general construction company operating in the fields of commercial, industrial, engineering and marine construction and interior fitouts and refurbishments. In Australia, the operation is a medium sized participant in the construction industry.

At 31 December 2000, Fletcher Construction had a firm contractual backlog of approximately \$917 million.

In most of its construction activities, Fletcher Construction acts as a general contractor. Fletcher Construction normally contracts to deliver a project and is paid a price for the completed project. Most aspects of the construction, however, are performed by subcontractors who are retained and paid by Fletcher Construction. The functions normally directly performed by Fletcher Construction include the planning and scheduling of the project, the procurement of materials and plant, the marshalling of the resources required for the project, the awarding of subcontracts and the direction and management of the construction operation.

Fletcher Construction makes extensive use of specialty contractors such as structural steel, electrical, mechanical and plumbing contractors in the performance of its construction contracts. The extent to which work is performed by Fletcher Construction's own employees varies with the location of particular projects and is largely dependent on the availability of experienced subcontractors in a particular area.

Fletcher Construction's projects vary in duration from those spanning one fiscal period to major contracts that could have up to a four or five year duration. Profit recognition is based on the estimated percentage of completion method and therefore, in any given fiscal period, earnings can vary depending on the timing of transactions and the profitability of the projects being reported.

Fletcher Construction's business involves contracts secured by either competitive bidding or through negotiation. The form of contracts varies but usually falls into one of three generic categories:

- Fixed Price contracts, which include unit price contracts, which usually transfer more risk to the contractor but offer the opportunity, under favourable circumstances, for greater profits.
- Guaranteed Maximum Price contracts, which provide a maximum price at a stage in design development where drawings are not complete. The contract provides for a sharing of savings between the contractor and client provided such savings can be made as the design process proceeds. While the contractor is accepting price risk there is the opportunity to achieve better returns through sharing in any savings that can be made.

- Construction Management contracts are contracts where most risks in the construction project are retained by the client. The contractor will either manage the construction project on a cost plus basis and obtain a fixed fee, or alternatively, may take some risk by accepting a fixed fee for its site overheads and receive a fixed fee.

Most of the construction activity of Fletcher Construction is performed under payment and performance bonds obtained through bonding capacity from its sureties or under bank guarantees.

Property

The Property operations of Fletcher Building are now confined to the management of its leases, the provision of property-related advice to operating units and the realisation of its remaining property assets. It is anticipated that it will take up to four years to complete the realisation of the property portfolio which has a book value of \$52 million.

Housing

The Building Division has had a long history in house building in New Zealand. Fletcher Residential concentrates on single unit dwellings, primarily in Auckland, New Zealand. Fletcher Building's other businesses supply a substantial amount of the materials purchased for the construction of these homes.

Environmental Issues

Background

Fletcher Building regards environmental performance as a key element of sustainable value creation. Fletcher Building's operating units are required to comply with applicable environmental legislation and regulations and to report regularly on key aspects of their performance in relation to environmental regulatory compliance. From time to time Fletcher Building commissions external audits of environmental performance.

Fletcher Building is subject to numerous national and local environmental laws and regulations concerning its products, operations and other activities. Some regulatory environments in which Fletcher Building operates are at a relatively early stage of development. Rather than relying on local standards in these environments, Fletcher Building applies a uniform approach to risk management which requires each operating unit to identify appropriate measures and controls to achieve environmentally responsible outcomes. Management believes that, in general, Fletcher Building's international operations have environmental performance levels higher than those of locally owned companies in the countries in which they operate.

In light of the geographical concentration and the nature of Fletcher Building's operations, two environmental regulatory regimes are particularly important: New Zealand environmental legislation and the Kyoto Protocol. Each is briefly discussed below.

Fletcher Building after Separation *continued*

New Zealand environmental legislation

New Zealand's principal laws governing the environmental and sustainable management of natural and physical resources are contained in or derived from the Resource Management Act 1991 (the "RMA") and the Hazardous Substances and New Organisms Act 1996 (the "HSNO"). The RMA was enacted following a major review of New Zealand's environmental legislation and includes provisions governing outcomes of land use and discharges into land, air and water. It contains a stringent enforcement regime and allows third parties to take action to enforce compliance. The RMA emphasises sustainable management of resources by controlling outcomes of activities, and involves active public participation in the process for the granting of permits. Breaches of the RMA are strict liability offences.

The HSNO legislation was enacted to protect the environment and the health and safety of people and communities by regulating the use of hazardous substances and the introduction of new organisms.

The Kyoto Protocol

International agreements relating to climate change have the potential to affect Fletcher Building's operations which emit carbon (e.g. cement).

The Kyoto Protocol to the United Nations Framework Convention on Climate Change (UNFCCC) was adopted on 11 December 1997, at the Third Session of the Conference of the Parties to the UNFCCC. The Kyoto Protocol seeks to establish legally binding commitments to reduce emissions of six greenhouse gases 6-8 per cent by 2008 to 2012 for a specified group of countries (primarily industrialised countries). The Protocol was opened for signature in March 1998. The Protocol will come into force once 55 Parties representing at least 55 per cent of industrialised countries greenhouse gas emissions have signed and ratified it. As of November 2000, the Kyoto Protocol had been signed by 84 countries, including the United States and New Zealand and ratified by 31 countries. The New Zealand Government has expressed support for the Kyoto Protocol. As a result, it may implement all or some aspects of the Protocol (such as the imposition of restraints on emission levels) which could have a material effect on Fletcher Building's financial position or results of operation.

It is Fletcher Building's policy to promote efficient use of all resources and to work constructively with governmental and non-governmental groups to develop strategies for tackling complex environmental and social issues.

Compliance

Fletcher Building considers that its activities are currently in compliance in all material respects with applicable environmental laws and regulations. Failure to comply with these laws and regulations may result in orders being issued that could cause certain of Fletcher Building's activities to cease or be curtailed or may require installation of additional equipment at substantial cost. Violators may be required to compensate those suffering loss or damage by reason of violations and may be fined if convicted of an offence under such legislation.

To date, Fletcher Building has made significant investments in plant and equipment in order to comply with applicable environmental laws and regulations. Fletcher Building cannot reasonably estimate the cost of future compliance or remedial work. Nevertheless, Fletcher Building expects that its businesses will have to continue to invest in order to ensure continued compliance as applicable environmental laws and

regulations and their enforcement grow more stringent. The precise cost of future compliance and remedial work will depend on, among other things, the nature and extent of the current and future environmental laws and regulations, the timing and nature of any required remedial work, the extent of any contamination, the technology available to meet the required standards, the determination of any liability in proportion to that of other parties and the extent to which any costs are recoverable from insurance and third parties. Assuming that environmental laws and regulations are applied uniformly, Fletcher Building considers that its environmental compliance costs are not likely to have a material adverse effect on its relative competitive position or its financial position or results of operation.

The costs of compliance and remedial work are generally embedded in the normal cost of conducting Fletcher Building's businesses. It is not practicable to attempt to isolate and quantify all such costs because they pervade Fletcher Building's operations and are related to, and intertwined with, health, safety and other laws and regulations to which Fletcher Building is subject. Fletcher Building's management has no reason to believe these costs vary significantly from similar costs incurred by other companies engaged in similar businesses.

Fletcher Building operating facilities comprise a number of sites in New Zealand as well as a small presence in Australia, South America, India, Fiji and Hong Kong. Although operating in various sectors and localities, Fletcher Building's business units have a co-ordinated shared focus on health, safety and environmental matters.

Fletcher Building's physical operations include natural resource development and extraction, waste recycling, manufacturing and product distribution. With this range of business activities, the key areas of Fletcher Building's environmental focus are:

- securing resource consents for operations;
- managing operations so that appropriate environmental standards are met;
- innovative business planning to identify and implement sustainable solutions; and
- participation in regulatory processes to promote effective and practicable environmental controls.

Resource consents (or equivalent) for existing and planned activities are secured by each of Fletcher Building's businesses as required by local regulation. There are no significant impediments or costs relating to security of existing consents.

The Health and Safety in Employment Act 1992 (New Zealand) applies to all of Fletcher Building's operations in New Zealand. That Act prescribes certain requirements for workplace safety and health. That Act requires, among other things, employers to take all practicable steps to ensure the safety of employees while at work. Fletcher Building considers that it is in compliance in all material respects with applicable provisions of the Health and Safety in Employment Act 1992.

Material litigation

All material litigation involving the Building Division (including any current regulatory investigations) is discussed in the "Risks relating to the industry and the business of Fletcher Building" section on page 100 of this Information Memorandum.

Fletcher Challenge and FCIL after Separation (Fletcher Challenge Forests)

Introduction

The purpose of this section is to provide information about FCIL which, as explained elsewhere in this Information Memorandum, will remain the issuer of any Existing Capital Notes which are not novated to Fletcher Building and redeemed for cash as a consequence of the implementation of the Capital Notes Arrangement.

This information has been extracted from the Information Memorandum to be issued to the shareholders of Fletcher Challenge in connection with the Separation Transaction. While this section refers to Fletcher Challenge rather than FCIL, Fletcher Challenge confirms that after Separation there will be no material difference between the financial condition or prospects of FCIL and Fletcher Challenge.

Background

Fletcher Challenge Forests is a world leader in solid wood Radiata plantation forestry, with integrated manufacturing and distribution channels to supply solid wood based solutions to consumers in New Zealand, Australia, the United States and Japan. A significant supplier of logs to industrial customers throughout the Pacific Rim, Fletcher Challenge Forests has forests in New Zealand and a small research based resource unit in Argentina. All product is sourced from intensively managed, renewable plantations.

As at 30 June 2000, Fletcher Challenge Forests owned or managed interests in approximately 284,500 net stocked hectares of plantation forests in New Zealand and Argentina, and 12 solid wood manufacturing facilities in New Zealand and Argentina.

As part of the proposed restructuring of Fletcher Challenge, Fletcher Challenge Forests has agreed to sell its South American assets, including the Argentinean Plantation Forests, to Rubicon, a company expected to be created in conjunction with the dismantling of the targeted share structure.

Since its formation in 1993 as a targeted share Division of Fletcher Challenge, Fletcher Challenge Forests has pursued a strategy of vertically integrating its operations to include downstream processing and distribution of solid wood products. This strategy incorporates a number of marketing initiatives designed to grow demand for Radiata pine and uplift Radiata pine from lower value uses such as packaging and temporary construction to higher value appearance and structural uses.

Key market segments

Five years ago, Fletcher Challenge Forests set a pathway for the future – to become a customer-driven supplier of high value solid wood products. The recapitalisation of Fletcher Challenge Forests is the catalyst to cementing this strategy.

The restructuring will enable Fletcher Challenge Forests to tighten its business focus, and it will strengthen its balance sheet providing a foundation for growth.

Four key markets define its focus:

- Australasia
- North America
- Japan Housing
- Forests and Logs

Fletcher Challenge Forests is moving Radiata logs to their highest value end-users, and in doing so, re-positioning the resource through innovative technology and through market, product and brand development.

The Australasian Consumer Solutions Unit (ACS) supplies framing, plywood and treated products to the residential and light commercial building sectors in New Zealand and Australia.

In financial year 2000, ACS experienced one of the most active periods of home building in both markets, and delivered a 17 per cent improvement in sales. Strong demand was a major factor in this growth, but much of the credit lies with the growing recognition of the Origin™ branded products, whose credentials are now firmly established.

There are clear growth opportunities for ACS' Australasian business. For example, ACS is developing further engineered products, frame and truss, and flooring and rafter systems; it is expanding its distributor relationships; and it is launching an e-commerce path for customers to access design and technical advice.

Taking clearwood from pruned logs through to high value moulding and millwood uses is the business of the North American Consumer Solutions Unit (NACS), where sales increased by 17 per cent in financial year 2000.

NACS has supplier relationships with two of the largest and fastest growing home improvement chains in the United States – The Home Depot and Loewe's. For these and other U.S. retail outlets, environmentally certified wood is a prerequisite, and Fletcher Challenge Forests is well positioned to supply these needs.

Growth opportunities are emerging, including the supply of clear boards and appearance panels to home centres and clear lumber to U.S. door and window manufacturers.

Fletcher Challenge Forests' Japan Housing Solutions Unit (JHS) takes lower quality logs through to high value engineered products used in post-and-beam houses, which today account for over four-fifths of the wooden houses built in Japan.

Fletcher Challenge and FCIL after Separation (Fletcher Challenge Forests) *continued*

JHS bypasses the traditional Japanese distribution system by selling directly to major house builders, who most value the narrow tolerances and consistent performance that JHS laminated wood products provide.

It is a growing market, with sales in financial year 2000 increasing 21 per cent.

The Forests and Logs Unit (F&L) incorporates forest management, log manufacturing, transport and supply chain activities for Fletcher Challenge Forests' owned and managed forest estates. In addition to selling primarily to industrial customers in New Zealand and Asia, F&L sources logs, industrial lumber and chips from Fletcher Challenge Forests' operations and third parties.

A number of markets are being developed in Asia, among them core and appearance veneer, packaging componentry and furniture componentry.

Projects to establish joint venture toll processing are also well advanced, in line with the desire of several key Asian wood manufacturers to secure long-term supply of logs from a sustainable source.

The Board of Directors

Corporate Governance

The Board of Fletcher Challenge is currently responsible for all the Divisions of the Fletcher Challenge Group. Up to 17 April 2001 it will be the Board of Fletcher Challenge Forests following its transition to a stand alone company.

With effect from 17 April 2001, Fletcher Challenge Forests will have its own, dedicated Board of Directors focussing solely on direction and performance of the Forests' business.

The following persons are the current directors of Fletcher Challenge.

Roderick Deane – Chairman – PhD, LL.D (Hon), BCom (Hons), FACA, FCIS, FNZIM

Dr Deane, 59, is chairman of Telecom New Zealand, having retired as chief executive of that company in 1999. He is also chairman of ANZ Banking Group (NZ), Te Papa Tongarewa (the Museum of New Zealand), New Zealand Seed Fund Management and New Zealand Seed Fund Partnership. Dr Deane is a director of TransAlta Corporation (of Canada), Australia and New Zealand Banking Group and Woolworths (both Australian companies) and eVentures New Zealand. He is Professor of Economics and Management at Victoria University of Wellington and is on the board of governance of IHC Inc. Dr Deane has previously been chief executive of the Electricity Corporation of New Zealand, chairman of the State Services Commission, deputy governor of the Reserve Bank of New Zealand and alternate executive director of the International Monetary Fund.

Michael Andrews – Executive Director – MNZIF

Mr Andrews, 61, is chief executive officer of Fletcher Challenge. Prior to that, he was divisional chief executive of Fletcher Challenge Energy, Fletcher Challenge Forests and Fletcher Challenge Paper and was previously chief executive officer of the Solid Wood Forestry sector and before that of the former

Energy and Resources Group. Mr Andrews joined Fletcher Timber in 1969, and has held senior management positions in a range of the Group's activities. He is chairman of the New Zealand Wool Board Implementation Project Team.

Paul Baines – Non-Executive Director – BCA, CA, MPP

Mr Baines, 50, is chairman of Tower Managed Funds and a director of Comalco New Zealand, Gough, Gough and Hamer, Greenstone Fund, New Zealand Post, South Eastern Utilities, the Reserve Bank of New Zealand, Telecom New Zealand and Wrightson. He was chief executive officer of CS First Boston New Zealand from 1990 until 1993. Prior to that, he held a number of senior positions in the sharebroking and investment banking firm of Jarden & Co.

Hugh Fletcher – Non-Executive Director – MCom (Hons), MBA (Stanford), BSc

Mr Fletcher, 52, was chief executive officer of Fletcher Challenge from 1987 until his retirement on 14 December 1997. Prior to that, from 1981 he was group managing director, responsible for New Zealand-headquartered activities. Mr Fletcher was a director of Fletcher Holdings from 1976, having joined the company in 1969. He was chief executive officer of Fletcher Holdings at the time of the merger which created Fletcher Challenge in 1981. Mr Fletcher is chairman of New Zealand Insurance, CGU Insurance Australia and the recent ministerial enquiry into telecommunications in New Zealand, a director of Willson Brown, a member of the Asia Pacific Advisory Committee of the NYSE, Merrill Lynch Australasian Advisory Board, Infrastructure Auckland and the University of Auckland Council.

Sir Dryden Spring – Non-Executive Director – DSc (Hon)

Sir Dryden, 60, is chairman of WEL Energy Group and Ericsson Communications. He is deputy chairman of Goodman Fielder and a director of Nufarm, the National Bank of New Zealand and Maersk New Zealand. Sir Dryden is a member of the PA Consulting NZ Advisory Board, the New Zealand Business and Parliament Trust, the Waikato Medical Research Foundation and the Asia 2000 Foundation. He is a Distinguished Fellow of the Institute of Directors and a member of the Washington DC based International Policy Council on Agriculture, Food and Trade. Sir Dryden was chairman of the New Zealand Dairy Board from 1989 to 1998, having been a director since 1983. He has also served on the boards of the Rural Banking and Finance Corporation, Ports of Auckland and AFFCO New Zealand.

Kerrin Vautier – Non-Executive Director – CMG, BA

Mrs Vautier, 55, is a research economist specialising in competition law and economics. She is chairman of the New Zealand Committee of the Pacific Economic Co-operation Council (NZPECC), a director of Norwich Union Holdings (NZ) and its subsidiary, State Insurance, Wilson & Horton Holdings and Deloitte Touche Tohmatsu (NZ), a member of the Board of Trustees of Asia 2000 Foundation and a senior part-time lecturer in the Department of Commercial Law at the University of Auckland. She is a former member of the New Zealand Commerce Commission and was chairman of the New Zealand Institute of Economic Research from 1992 to 1998.

Fletcher Challenge and FCIL after Separation (Fletcher Challenge Forests) *continued*

Senior Management

The senior management team of Fletcher Challenge Forests is led by its chief executive, Terry McFadgen. All members of the team bring extensive management experience in their respective fields to Fletcher Challenge Forests.

The current senior executives are proposed to continue as the senior management team following the proposed Separation Transactions.

Terry McFadgen – Chief Executive – LL.M (Harvard)

Mr McFadgen was most recently chief executive of Fletcher Challenge Building, and prior to that, was head of the Office of the Chief Executive, after having played a key role in the restructuring of Fletcher Challenge Building's commercial building operations in Australia. He was previously a senior partner with Simpson Grierson in Auckland, and has worked with international law firms in New York and London. Mr McFadgen took up his new role on 10 October 2000.

Ian Boyd – Chief Operating Officer and General Manager, Forests and Logs – B.For.Sc

Mr Boyd was previously general manager responsible for New Zealand forest operations. Mr Boyd has worked mostly in the forest industry since 1972. He was resident director of Fletcher Challenge's South American operations (forestry and paper), and spent some time as managing director of Wrightson.

Mr Boyd was acting chief executive officer of Fletcher Challenge Forests prior to the appointment of Mr McFadgen.

Tom Nickels – General Manager, Australasian Consumer Solutions – B.E., MBA

Mr Nickels joined Fletcher Challenge Forests in 1997 from the building products area, where he was manager of non-residential building products for James Hardie. Prior to that, he held marketing and production roles in Australia, based on his engineering background.

Adrian Gray – General Manager, Japan Housing Solutions – MSc. (Hons), MMgt

Mr Gray was previously director, central North Island operations, encompassing both forestry and processing. Mr Gray has led supply and trading operations, as well as industrial marketing, and lived and worked in North America where he held industrial sales and production superintendent roles with MacMillan Bloedel.

Geoff Bramley – General Manager, Global Industrial Sales & Trading – B Soc.Sci

Mr Bramley has a marketing background, and has held roles in sales and marketing. He was general manager, consumer products for the New Zealand Dairy Board and marketing director for Lion Nathan. He has also worked as a brand manager in Hong Kong.

Doug Robertson – General Manager, Forest Management Services – B.For.Sc

Mr Robertson was manager of several forestry areas after his graduate training as a forester. More recently he has been manager of log sales and supply, general manager, global industrial sales and trading and then general manager of forest operations in the central North Island.

Business Strategy

Fletcher Challenge Forests' strategy is to move Radiata logs to their highest value end-uses. In doing so, Fletcher Challenge Forests is playing an important role in the re-positioning of Radiata pine through innovative technology and market, product and brand development.

The strategy has been implemented through the establishment of Strategic Business Units (SBUs) that have a clear market and product focus. The SBUs are supported by shared infrastructure in areas such as manufacturing support, supply chain management, shipping, and product and market development.

Australasian Consumer Solutions (ACS).

Australasian Consumer Solutions supplies framing, plywood and treated products to the residential and light commercial building sectors in New Zealand and Australia.

Through the introduction of kiln-dried, machine stress graded lumber under the name Origin Timeframe, ACS has expanded its share of the New Zealand framing market. Implementation of sonic testing (acoustic testing of structure quality) of logs at central processing yards is allowing Fletcher Challenge Forests to recover a higher proportion of structural wood in support of ACS's market growth.

Other branded products are Origin Plywood (structural and interior plywood), Origin Outdoor (decking, fencing and landscaping lumber) and Origin I-beam (flooring).

ACS's growth opportunities include further engineered products (frame and truss) and flooring and rafter systems. Eventually ACS plans to provide a complete Radiata housing system to home builders. Channel development is occurring in parallel, with ACS expanding its distribution relationship with PlaceMakers to the South Island and achieving preferred supplier status with the ITM group of hardware stores. An e-commerce path to customers is being implemented, linked to the provision of design and technical advice.

North American Consumer Solutions (NACS).

The North American Consumer Solutions business takes clearwood from pruned logs through to high value moulding and millwork uses in the United States. Radiata substitutes in many applications for diminishing U.S. supplies of Ponderosa pine.

NACS has a strong relationship with two of the largest and fastest growing home improvement chains in the United States – The Home Depot (through American Wood Moulding, a company in which Fletcher Challenge Forests holds a 50 per cent interest) and Loewe's (through a 33 per cent shareholding in The Empire Company). The Home Depot, Loewe's and other major U.S. retail outlets are all starting to demand sustainable wood from their suppliers and Fletcher Challenge Forests' recent attainment of Forests Stewardship Council certification should confer a significant advantage.

NACS has numerous growth opportunities including the supply of clear boards and appearance panels to home centres and the supply of clear lumber to U.S. door and window manufacturers.

Fletcher Challenge and FCIL after Separation (Fletcher Challenge Forests) *continued*

Japan Housing Solutions (JHS).

Japan Housing Solutions takes lower quality logs through to high-value engineered products used in post-and-beam houses. Post-and-beam construction accounts for over 80 per cent of the wooden houses built in Japan. JHS bypasses the traditional Japanese distribution system by selling directly to major house builders. As well as reducing costs, the direct channel allows product performance to be much more closely matched to the highly customised building practices of end-users.

JHS has targeted system builders who most value the narrow tolerances and consistent performance that laminated wood products provide. The value of this focus has been reinforced by the recent introduction of the Housing Quality Assurance Law in Japan which requires a significant increase in the durability of housing and imposes much greater warranty obligations on house builders.

JHS's strategy is to increase rapidly the volume of existing products and, over time, to expand steadily the range of products in order to provide as complete a solution as possible to house builders. JHS plans to expand its product range through toll processing off-shore and external sourcing, as well as from Fletcher Challenge Forests' own processing.

Forests and Logs (F&L).

The Forests and Logs unit (F&L) undertakes forest establishment and management, harvesting, log manufacturing, transport and supply chain planning activities for the estate Fletcher Challenge Forests owns and manages in the central North Island. The focus in these areas is on developing and maintaining the best tree resource to meet our customers' needs, and providing the best value recovery for each tree. F&L utilises leading edge technology and innovative forest management practices such as whole stern logging and central log processing, and computerised log optimisation tools. F&L is also responsible for export and domestic log sales, fibre (chip) and residue sales and industrial lumber sales. This includes well established third party trading activities for both logs and lumber.

F&L sources logs, industrial lumber and chips from both Fletcher Challenge Forests' operations and third parties. It sells primarily to industrial customers in New Zealand (including Fletcher Challenge Forests' own mills) and Asia. F&L has an important role in optimising the harvest from the New Zealand plantation forests, in meeting pulpwood supply to Norske Skogindustrier ASA (the recent purchaser of Fletcher Challenge Paper), and in marketing the arising products from Fletcher Challenge Forests' sawmills.

Woodlink is a separate Fletcher Challenge Forests business linked to F&L. As well as earning a margin on trading, Woodlink sources third-party lumber for the consumer SBUs so that they can provide a more complete service to their customers.

F&L is developing a number of markets in Asia, among them core and appearance veneer, packaging componentry and furniture componentry. Projects to establish joint venture toll processing are also well advanced, reflecting the desire of several key Asian wood manufacturers to secure a long-term supply of logs as their traditional timber sources from natural forests are depleted or preserved. As many Asian wood manufacturers export into North America and Europe, the environmental sustainability of their wood supply is of increasing importance.

Ongoing cost reduction programme

Fletcher Challenge Forests will continue to build on its record of the past few years of cost reductions and operational improvements. Management is targeting a reduction in annual costs of NZ\$15 million to be achieved over the next 12 to 15 months.

CNIF Partnership

Litigation between Fletcher Challenge Forests and CITIC

Fletcher Challenge Forests Limited (an affiliate of Fletcher Challenge) manages the CNIF Partnership. In December 1999 CITIC gave notice terminating the management agreement with effect from 12 January 2000. It has also issued proceedings against Fletcher Challenge, and Fletcher Challenge Forests Limited and two of their subsidiaries. Fletcher Challenge Forests disputes the validity of CITIC's notice of termination and this dispute remains unresolved.

CITIC claims that Fletcher Challenge Forests Limited has acted in breach of its obligations as manager of the CNIF Partnership and has caused the CNIF Partnership substantial losses, for which CITIC has sought compensation for its one-half share in the CNIF Partnership. CITIC has also disputed the amount of the asset valuation contained in the purchase agreement entered into in September 1996, when the CNIF Partnership was created.

If CITIC's claims are successful:

- Substantial damages might be awarded against Fletcher Challenge Forests Limited.
- The book value of the CNIF Partnership subordinated junior debt principal and interest accruing to Fletcher Challenge Forests will be reduced.
- Fletcher Challenge Forests Limited might be removed as manager of the CNIF Partnership. This may increase Fletcher Challenge Forests' costs as it will lose efficiencies arising from the joint management of the CNIF Partnership's forests and Fletcher Challenge Forests' own plantation.

CITIC has not formally quantified its claim against Fletcher Challenge and Fletcher Challenge Forests Limited. These claims are substantially without merit in the view of Fletcher Challenge Forests Limited and will be vigorously defended.

CNIF Partnership debt facilities (secured against the assets of the CNIF Partnership and without recourse to the non-CNIF Partnership assets of Fletcher Challenge Forests)

Primarily as a result of current low log prices the CNIF Partnership breached certain loan ratios and covenants at 31 December 2000 and the senior debt facility is now in default. The lending banks have reserved all their legal rights and remedies as a consequence of the default which includes the right to enforce the securities associated with the debt facility. This could include the appointment of a receiver, mortgagee sale or assuming control of the CNIF Partnership's assets as a mortgagee in possession. In turn, this could result in a cancellation of Fletcher Challenge Forests Limited's contract for management of

Fletcher Challenge and FCIL after Separation (Fletcher Challenge Forests) *continued*

the CNIF Partnership. If the banks take enforcement action, the Crown could also take steps to terminate the Crown Forestry Licences held by the CNIF Partnership.

As a result of these events and the likely realisation of the Partnership's assets Fletcher Challenge is considering writing down the carrying value of Fletcher Challenge Forests' interest in the CNIF Partnership.

Other Litigation

A claim for US\$28.6 million has been made against Fletcher Challenge Forests Limited and Fletcher Challenge Forests USA, Inc. by Precision Lumber Corporation. The claim (which Fletcher Challenge believes to be without merit) alleges unauthorised and unlawful use of trade secrets and confidential information and interference with Precision Lumber Corporation's business relationships. If Precision Lumber Corporation is successful on this claim, Fletcher Challenge Forests' liability for damages could have an adverse affect in its financial condition and results of operation.

Key Effects of the Separation Transaction on Fletcher Challenge Forests

Business

Other than the proposed sale of Fletcher Challenge Forests' biotechnology interests and its South American assets to Rubicon as part of the proposed restructuring, Fletcher Challenge Forests' business following the Separation Transaction will be the same as its current business.

Fletcher Challenge Forests will also continue to be subject to the range of business risks that it currently confronts including risks in relation to its investment in the CNIF Partnership and the disputes with its partner CITIC New Zealand Limited.

Strategy

Fletcher Challenge Forests' strategy as a stand alone entity is set out on pages 57 to 59 of this Information Memorandum.

Governance

Details of Fletcher Challenge's current Board and senior management after implementation of the Separation Transaction are set out on pages 54 to 56 of this Information Memorandum. A Board (which will replace the current Fletcher Challenge Board with effect from 17 April 2001) will focus solely on Fletcher Challenge Forests issues and the senior management team will have a clear strategic focus centred around the Company's refined vision and asset base.

Fletcher Challenge Forests Shares and Listing

Fletcher Challenge will continue to have two classes of shares after completion of the Separation Transaction – Fletcher Challenge Forests Ordinary Shares and Fletcher Challenge Forests Preference Shares. Both classes of shares will continue to be listed on the NZSE, the Australian Stock Exchange and the New York Stock Exchange (in the form of American Depositary Shares).

Debt Funding

Fletcher Building and Shell Overseas Holdings Limited will make payments to Fletcher Challenge equal to the amount of outstanding debt of the Fletcher Challenge Group attributed to the Building Division and the Energy Division respectively. Following receipt of these payments the remaining debt of the Fletcher Challenge Group will be that attributed to Fletcher Challenge Forests.

Fletcher Challenge Forests has arranged a fully underwritten five year term debt facility for US\$200 million to be available immediately upon separation. A drawdown under this new term debt facility will be used to repay the debt of the Fletcher Challenge Group attributed to Fletcher Challenge Forests remaining immediately prior to separation.

Key Effects of the Separation Transaction on Fletcher Challenge Forests *continued*

The interest charges under Fletcher Challenge Forests' new debt funding will be approximately 1.5 per cent to 2 per cent per annum higher than the interest costs of the Fletcher Challenge debt currently attributed to Fletcher Challenge Forests. However, the Fletcher Challenge Forests Preference Share issue completed in December 2000 has reduced Fletcher Challenge Forests' debt, and the placement of Fletcher Challenge Forests Shares and the sale of assets to Rubicon to occur on separation will further reduce Fletcher Challenge Forests' overall debt significantly.

The terms of the financing documentation will impose restrictions on Fletcher Challenge Forests that are additional to those imposed on Fletcher Challenge at present. These include the satisfaction of certain financial ratios and the limitations on obtaining additional debt funding, paying dividends and investing in non-wholly owned charging subsidiaries (including the CNIF Partnership).

Financial Position

The net funds raised through the issue of Fletcher Challenge Forests Preference Shares completed in December 2000 were applied in repayment of the debt attributed to Fletcher Challenge Forests. Adjusting for the rights issue and for currency movements since 30 June 2000, Fletcher Challenge Forests' net debt as at 30 June 2000 would have been NZ\$406 million as compared to NZ\$820 million (after adjusting for currency movements as at 31 December 2000). Adjusting also for the net cash injections arising on the completion of the Separation Transaction (including the placement of Fletcher Challenge Forests Shares and the sale of assets to Rubicon), Fletcher Challenge Forests' net debt as at 30 June 2000 would have been NZ\$271 million.

A table showing the effects of the issue of the Fletcher Challenge Forests Preference Shares and the proposed restructuring on the reported 30 June 2000 financial position of Fletcher Challenge Forests follows on page 64 of this Information Memorandum. The table includes the following:

- a currency adjustment to reflect the change in the NZ\$/US\$ exchange rate from 0.4686 at 30 June 2000 to 0.4405 at 31 December 2000;
- the NZ\$427 million raised by the rights issue, less issue costs of NZ\$13 million;
- the issue of 150 million Fletcher Challenge Forests Preference Shares and 75 million Fletcher Challenge Forests Ordinary Shares to Rubicon at a price of NZ\$0.40 per share;
- separation costs to be attributed to Fletcher Challenge Forests. These costs are estimated to be NZ\$35 million and are not expected to differ materially from this figure;
- the sale of Fletcher Challenge Forests' biotechnology assets and South American assets to Rubicon for NZ\$80 million; and
- the additional carrying value of the forest estates recorded in the Fletcher Challenge Group financial statements.

Fletcher Challenge Forests will likely incur additional costs in relation to the establishment of certain head office functions to replace the Fletcher Challenge corporate office which is being disbanded.

The Fletcher Challenge Group Financial Statements for the year to 30 June 2001 will record significant unusual items relating to the restructuring of the Fletcher Challenge Group. In particular, gains relating to the sale of the Paper Division, and the proposed sale of the Energy Division, will be recorded in the Group Financial Statements. In addition, one-time charges including restructuring costs, direct costs associated with the transactions and any changes in the carrying value of assets and liabilities will be recognised.

At 30 June 2000 the carrying value of the forest estate (net of deferred taxation) was NZ\$487 million higher in Fletcher Challenge's consolidated financial statements than that recorded in the Fletcher Challenge Forests financial statements. The reason for the different carrying value is the level of interest which has been capitalised to the forest estate. In the consolidated financial statements, interest on an amount equal to 100 per cent of the expenditure on the forest estate can be capitalised. However, within the Fletcher Challenge Forests financial statements, interest is capitalised only to the extent Fletcher Challenge Forests is attributed interest on the attributed Fletcher Challenge Group debt. After separation, Fletcher Challenge Forests will remain as Fletcher Challenge's sole business. Accordingly, the consolidated Fletcher Challenge financial statements, adjusted for the Separation Transaction, will be relevant to Fletcher Challenge Forests Shareholders.

The higher carrying value of the forest estate reflected in the consolidated financial statements may have an adverse effect on the future earnings of Fletcher Challenge Forests depending on the treatment of the carrying value difference, and certain accounting policy issues, both to be considered by the new Board of Fletcher Challenge Forests in conjunction with the accounts as at 30 June 2001.

Fletcher Challenge Forests may need to write down the value of its forest estate. The value of the forest estate is dependent on market prices and key operating assumptions over a long timeframe.

Any change in the assumptions regarding future market prices, key operating factors or cost of capital could have a significant impact on the accounting carrying value of the forest estate and could result in value impairment.

Following completion of the proposed restructuring and consistent with past practice, management intends to undertake a full review of market price projections, key operating factors and cost of capital applicable for the stand alone Fletcher Challenge Forests business in order to reassess the appropriate carrying value of the forest estate at that time.

Key Effects of the Separation Transaction on Fletcher Challenge Forests *continued*

Fletcher Challenge Forests Financial Information

The following table shows the impacts on the reported 30 June 2000 equity and debt position of Fletcher Challenge Forests of the issue of Fletcher Challenge Forests Preference Shares and the Separation Transaction.

Fletcher Challenge Forests		as at 30 June 2000 (NZ\$ million)								
	Reported	Currency Adjustments ⁽¹⁾	Rights Offer ⁽²⁾	Adjusted (Post-Rights Offer)	Placement to Rubicon ⁽³⁾	Separation Costs ⁽⁴⁾	Asset Sales ⁽⁵⁾	Adjusted (Post-Rights Offer and Restructuring)	Additional Capitalised Interest ⁽⁶⁾	Adjusted (Post-Rights Offer, Post- Separation)
Net Interest										
Bearing Debt	771	49	-414	406	-90	35	-80	271		271
Equity										
Issued and Paid										
up Capital	951		414	1,365	90			1,455		1,455
Reserves	481	91		572		-35	40	577	501	1,078
Fletcher Challenge										
Forests Equity	1,432	91	414	1,937	90	-35	40	2,032	501	2,533
Minority Equity	20	1		21				21	17	38
Total Equity	1,452	92	414	1,958	90	-35	40	2,053	518	2,571
Total Capitalisation	2,223	141		2,364			-40	2,324	518	2,842
Net Debt/Total										
Capitalisation	34.7%			17.2%				11.7%		9.5%

Fletcher Challenge Forests

as at 30 June 2000 (US\$ million)

	Reported ⁽⁷⁾	Currency Adjustments	Rights Offer ⁽²⁾⁽⁸⁾	Adjusted (Post-Rights Offer) ⁽⁸⁾	Placement to Rubicon ⁽³⁾⁽⁸⁾	Separation Costs ⁽⁴⁾⁽⁸⁾	Asset Sales ⁽⁵⁾⁽⁸⁾	Adjusted (Post-Rights Offer and Restructuring) ⁽⁸⁾	Additional Capitalised Interest ⁽⁶⁾⁽⁸⁾	Adjusted (Post-Rights Offer, Post- Separation) ⁽⁸⁾
Net Interest										
Bearing Debt	361		-182	179	-40	15	-35	119		119
Equity										
Issued and Paid up Capital	445		182	627	40			667		667
Reserves	226			226		-15	18	229	221	450
Fletcher Challenge Forests Equity	671		182	853	40	-15	18	896	221	1,117
Minority Equity	9			9				9	7	16
Total Equity	680		182	862	40	-15	18	905	228	1,133
Total Capitalisation	1,041			1,041			-17	1,024	228	1,252
Net Debt/Total Capitalisation	34.7%			17.2%				11.7%		9.5%

Notes

1. Currency adjustments reflect the impact of the change in the NZ\$/US\$ exchange rate from 0.4686 at 30 June 2000 to 0.4405 at 31 December 2000.
2. \$427 million Rights Offer, net of issue costs of \$13 million.
3. Placement of 150 million Fletcher Challenge Forests Preference Shares and 75 million Fletcher Challenge Forests Shares to Rubicon at \$0.40 per share.
4. Separation costs attributed to Fletcher Challenge Forests.
5. Sale of South American assets and biotechnology assets to Rubicon for \$80 million for a profit of \$40 million.
6. The carrying value of the Forest Estate (net of deferred taxation) was, at 30 June 2000, \$487 million higher (\$518 million currency adjusted to 31 December 2000) in the Fletcher Challenge Group Financial Statements than that recorded in the Fletcher Challenge Forests Financial Statements for the reasons outlined on page 63 of this Information Memorandum. After separation Fletcher Challenge Forests will remain as the sole business of Fletcher Challenge Limited. Accordingly the ongoing financial information relevant to Fletcher Challenge Forests shareholders will be the Fletcher Challenge Group Financial Statements.
7. Translated to United States dollars solely for convenience and converted from New Zealand dollars, at a rate on 30 June 2000 of US\$0.4686:NZ\$1.00.
8. Translated to United States dollars solely for convenience and converted from New Zealand dollars, at a rate on 31 December 2000 of US\$0.4405:NZ\$1.00.

The table assumes that no Existing Capital Notes will remain issued by Fletcher Challenge Industries Limited following the proposed Separation Transaction.

Key Effects of the Separation Transaction on Fletcher Challenge Forests *continued*

Taxation

Historically the tax position of Fletcher Challenge has been managed on a consolidated basis in each jurisdiction, which enabled profits and losses from different operations to be off-set. Following separation, Fletcher Challenge Forests will have reduced scope to benefit from such an offset of losses and profits between different operations in the same jurisdictions.

Residual Assets and Liabilities

Following the separation of the Building Division and the Energy Division from the Fletcher Challenge Group, Fletcher Challenge Forests will continue as the sole remaining business of Fletcher Challenge.

Generally, the assets and liabilities of the Building Division, the Energy Division and the Paper Division are, or were, held by companies within the relevant Division and will be, or have been, transferred from the Fletcher Challenge Group as part of the separation of the relevant Division.

However, certain assets and liabilities attributed to a Division are not held by companies that will be transferred with that Division. These include:

- (a) specified assets and liabilities held in one Division that are properly attributed to another Division but that cannot be transferred prior to separation; and
- (b) assets and liabilities that are properly attributed to a Division that are held by certain Fletcher Challenge corporate companies (the majority of which will remain part of Fletcher Challenge).

This means that a number of liabilities will continue to reside in Fletcher Challenge, reflecting its historical position as head of the Fletcher Challenge Group, which are, in fact, properly attributed to the Building, Energy or Paper Division. The types of liabilities will include:

- liability under contracts relating to the Building, Energy or Paper Division to which Fletcher Challenge is a party and which will continue after separation;
- guarantees given by Fletcher Challenge in relation to liabilities of companies which no longer form part of the Fletcher Challenge Forests group following separation; and
- taxation liability as the ultimate taxpayer in the Fletcher Challenge Group.

Examples of circumstances in which liability might arise include:

- As head of the Fletcher Challenge Group, Fletcher Challenge has been required to give additional warranties. Even where the transaction has been completed, in some circumstances it is possible that a breach of warranty may subsequently be identified by the purchaser prior to the expiry of any warranty claim periods or limitation periods. Conversely, in certain circumstances Fletcher Challenge may have the residual benefit of warranties in relation to assets purchased by it which are attributable to the Paper, Building or Energy Divisions;
- the Paper, Building and Energy Transactions involve, in broad terms, the exchange and disposal by shareholders of their Fletcher Challenge Paper, Building and Energy Shares to Norske Skogindustrier

ASA, Fletcher Building and Shell Overseas Holdings Limited respectively, and the exchange by FCIL of its shares in Fletcher Challenge Paper Limited, Fletcher Challenge Building Limited and Energy International Holdings Limited for the shares of Konrad Holdings Limited, Building Holdings Limited and Exploration Holdings Limited, respectively. As these processes are the only commercially feasible methods identified to effect the separations, Fletcher Challenge believes that the Paper, Building and Energy Transactions will not give rise to any taxation liabilities for Fletcher Challenge. While Fletcher Challenge cannot see that there is a basis for the Inland Revenue Department to recharacterise the transactions for taxation purposes, if they were to do so, then material additional tax liabilities could arise for Fletcher Challenge, depending upon the nature of that recharacterisation; and

- as head of the Fletcher Challenge Group, Fletcher Challenge was required to give a number of guarantees in relation to the performance of certain Building subsidiaries under construction contracts. Breaches of such contracts caused by defects in construction or similar issues may not be manifested for some time after completion of the contracts. To the extent that the claims period for such construction contracts has not ended, then Fletcher Challenge could be liable under these guarantees for latent defects in construction.

A specific agreement, the Assets and Liabilities Deed, has been entered into on behalf of the Building Division, the Energy Division, the Forests Division and the Paper Division to ensure that the economic benefit and risks of these types of liabilities are assumed by the Division to which the assets or liabilities are properly attributed. As a result, any such liabilities are attributable and recoverable from the relevant Division, its acquiror and the guarantor of the acquiror of the relevant Division under the Assets and Liabilities Deed (see the discussion below). Accordingly, Fletcher Challenge does not believe that Fletcher Challenge Forests Shareholders will be ultimately exposed to these types of liabilities following the separations.

If claims are made subsequently on Fletcher Challenge or FCIL (which will both form part of Fletcher Challenge Forests) that are, or were, properly attributed to another Division, then Fletcher Challenge Forests will be required to exercise its rights under the Assets and Liabilities Deed to require payment from the relevant Division or its acquiror. Fletcher Challenge Forests is, therefore, exposed to risk of financial loss if the relevant Division or the acquiror of the Division cannot, or will not, make the required payment or if that payment is disputed by that Division or acquiror. The obligations of each Division in this regard are guaranteed by the purchaser of the relevant Division (that is, Norske Skogindustrier ASA for the Paper Division, Shell Overseas Holdings Limited for the Energy Division and Fletcher Building for the Building Division).

Any residual assets, indebtedness and other obligations arising after the separation that are not attributed to any particular Division will be attributed as follows:

if those assets, indebtedness or other obligations arise in respect of any event occurring on or after 22 March 1996 and fall into the category of items which have no more appropriate method of attribution, they will be attributed in equal shares between each of the Building Division, the Energy Division, the Forests Division and the Paper Division; and

Key Effects of the Separation Transaction on Fletcher Challenge Forests *continued*

if those assets, indebtedness or other obligations arise in respect of any event occurring before 22 March 1996, and fall into the category of items which have no more appropriate method of attribution, and which are not attributed to the Forests Division, they will be attributed to the Building Division as to 25 per cent, to the Energy Division as to 25 per cent and to the Paper Division as to 50 per cent in accordance with the 1996 Ordinary Division Reorganisation Memorandum.

Ongoing relationship between Fletcher Challenge Forests and Fletcher Building and Shell

Generally, Fletcher Challenge Forests will have no ongoing involvement in the business or operations of Fletcher Building or in the Energy Division's business once it forms part of the operations of Shell Overseas Holdings Limited and Apache Corporation. Notwithstanding this, the following ongoing relationships have been provided for:

- certain subsidiaries of the Building Division are currently important purchasers of Fletcher Challenge Forests' products and contracts for supply with Fletcher Building will be continued post separation on a commercial basis;
- prior to the sale to Rubicon of Fletcher Challenge Forests' seedling and clonal improvement activities carried out at Te Teko, contractual arrangements will be put in place to provide Fletcher Challenge Forests with continuing access to the seedlings and clonal resources on a commercial basis;
- Fletcher Challenge Forests will provide support and administrative services to Rubicon in relation to the Te Teko operations for a transitional period and will agree to provide specific services in relation to Rubicon's participation in the ArborGen biotechnology joint venture on a commercial basis;
- Fletcher Building will have a perpetual, unfettered licence from Fletcher Challenge to use (without payment of any kind) the name "Fletcher" and the Fletcher Challenge insignia;
- Challenge Petroleum Limited will have a perpetual, unfettered licence from Fletcher Challenge to use (without payment of any kind) the name "Challenge" for its retail petroleum network;
- the mechanisms created by the Assets and Liabilities Deed;
- Rubicon will hold between 8.1 per cent and 17.6 per cent of the Fletcher Challenge Forests Shares as a result of the agreement reached with the underwriters of the Fletcher Challenge Forests Preference Share issue and the placement of \$90 million of Fletcher Challenge Forests Shares as part of the Separation Transaction. The exact percentage will depend on the extent that Credit Suisse First Boston NZ Securities Limited sells any of the 267,148,663 Fletcher Challenge Forests Preference Shares prior to the Effective Date; and
- as part of the Group separation process, Fletcher Challenge will transfer to Fletcher Building the lease relating to Fletcher Challenge's head office complex in Penrose, Auckland. Fletcher Challenge will enter into, and will ensure that the Energy Division enters into, a sublease in relation to those parts of that complex that are currently occupied by Fletcher Challenge Forests and the Energy Division respectively. Alternatively, Fletcher Challenge will compensate Fletcher Building in an amount equivalent to the expected lease payments in respect of those parts of the complex that are not so subleased.

Fletcher Challenge Forests also has a relationship with the former Paper Division under the Tasman contracts. The Tasman contracts represent long-term arrangements for the supply of saw logs and pulpwood from the CNIF Partnership forest estate to Fletcher Challenge companies. The contracts provide the Fletcher Challenge companies with an option to purchase, but do not include any “take-or-pay” obligation.

With the purchase of the Paper Division by Norske Skogindustrier ASA, Tasman Pulp and Paper Company Limited has ceased to be a party to the Tasman contracts. Fletcher Challenge Forests remains a party to those contracts. It has negotiated a back to back agreement with Norske Skog Tasman Limited (formerly Tasman Pulp and Paper Company Limited) under which it is required to procure supplies of pulpwood from the CNIF Partnership under the Tasman contracts for resale to Norske Skog Tasman Limited. The back to back agreement provides for the novation of the rights and obligations of Fletcher Challenge Forests to the CNIF Partnership with the consent of the CNIF Partners.

Key Effects of the Separation Transaction on Fletcher Challenge Forests Shareholders

There are a number of important changes for Fletcher Challenge Forests Shareholders from the implementation of the Separation Transaction.

Simplified corporate structure

Following separation Fletcher Challenge Forests will have a significantly simplified corporate structure. This will improve corporate governance and better position Fletcher Challenge Forests to participate in future corporate activity, including through take-over or other forms of industry consolidation. The investor base will be potentially wider once the complexity of the current targeted share structure is removed. As a result any share price discount which has applied to all classes of Fletcher Challenge Shares due to the negative investor sentiment towards the existing structure should be eliminated.

Fletcher Challenge Forests will be the sole business of Fletcher Challenge

Following the Separation Transaction, Fletcher Challenge Forests Shareholders will generally have no exposure to the operations of the other Divisions of Fletcher Challenge (although see the discussions under the headings “Residual Assets and Liabilities” and “Ongoing relationship between Fletcher Challenge Forests and Fletcher Building and Shell” on pages 66 and 68 respectively). Currently, although Fletcher Challenge has notionally attributed its assets and liabilities among its three Divisions for dividend and distribution purposes, the targeted share structure does not involve the legal transfer of assets or liabilities. They continue to be held, directly or indirectly, by Fletcher Challenge. Holders of Fletcher Challenge shares, including Fletcher Challenge Forests Shares, are shareholders in Fletcher Challenge and accordingly are currently subject to all the liabilities and risks associated with Fletcher Challenge. After the Separation Transaction, Fletcher Challenge will no longer be exposed to the future liabilities and risks (nor will it receive any support from the assets and future cash flows) of the former Energy and Building Divisions.

In particular, under the targeted share structure if Fletcher Challenge were to be placed in liquidation or receivership, holders of Fletcher Challenge Forests Shares would not receive any return of capital until

Key Effects of the Separation Transaction on Fletcher Challenge Forests *continued*

Fletcher Challenge had paid all its creditors, both secured and unsecured, including the costs of the liquidation or receivership. Those creditors currently would include some of those arising out of the activities of the Building Division and the Energy Division. Following the separation of those Divisions, only those creditors associated with the Forests' Division would be able to file a claim in Fletcher Challenge's insolvency (subject to the discussion under the headings "Residual Assets and Liabilities" and "Ongoing relationship between Fletcher Challenge Forests and Fletcher Building and Shell" on pages 66 and 68 respectively).

Currently, Fletcher Challenge makes dividend decisions based on the earnings, financial condition, cash flow and business requirements of the relevant Division. However, the amount that may be paid by way of dividend is limited to the funds that Fletcher Challenge could distribute under the Companies Act solvency test, determined for the company as a whole. The financial position and performance of other Divisions can therefore affect Fletcher Challenge's ability to pay dividends on Fletcher Challenge Forests Shares. This possibility will cease after the Building and Energy Divisions are separated from Fletcher Challenge. (Due to the trading conditions and price levels for Fletcher Challenge Forests products that have prevailed since the Asian financial crisis in late 1997, Fletcher Challenge has not paid a dividend on Fletcher Challenge Forests Shares since 1998).

Fletcher Challenge Forests Shareholders will be the sole shareholders in Fletcher Challenge

Under the targeted share structure, Fletcher Challenge Forests Shares are one class of Fletcher Challenge shares along with those issued in relation to the Building Division and the Energy Division. Matters put to meetings of holders of Fletcher Challenge Shares are required to be voted on by all classes of shareholders as a single voting group, subject to a number of important exceptions. Different weightings are attached to the votes of each class of shares based on market capitalisation of the class.

Following the implementation of the Separation Transaction, Fletcher Challenge Forests Shareholders will be the only shareholders entitled to vote on matters relating to Fletcher Challenge. Each Fletcher Challenge Forests Share will be entitled to an equal vote on all matters (other than in relation to a liquidation of Fletcher Challenge, where the Fletcher Challenge Forests Ordinary Shares and the Fletcher Challenge Forests Preference Shares will each require a separate class vote).

Constitution of Fletcher Challenge

Fletcher Challenge's existing constitution reflects the creation of the Fletcher Challenge Group's targeted share structure. Although no changes are required to be made to the constitution as a consequence of the Separation Transaction, it is likely that the new Board of Fletcher Challenge Forests will consider amending the constitution in the future to a form more usual for a company which does not have a targeted share structure.

Other Information

-
- Description of the Trust Deed
-
- Additional Statutory Information
-
- Other Material Matters Relating to Fletcher Building Ordinary Shares
-
- Board and Management of Fletcher Building
-
- Answers to Important Questions
-

Description of the Trust Deed

Introduction

The Existing Capital Notes are, and the New 2006 Fletcher Building Capital Notes (and the Novated Capital Notes) will be, constituted under an amended and restated Trust Deed dated 24 January 2001 between Fletcher Challenge, FCIL, Fletcher Building and the Trustee entered into pursuant to the Capital Notes Arrangement Deed. Such amended and restated Trust Deed is, in this section, referred to as the Trust Deed.

The Trustee acts as trustee for the Noteholders.

In this section, words commencing with capital letters are defined in the Trust Deed.

The following is a summary of principal provisions of the Trust Deed. This summary has been prepared on the assumption that the Capital Notes Arrangement will be approved and implemented in respect of the Existing Capital Notes of all Series and states the position as of the date of its implementation. It therefore assumes FCIL and Fletcher Challenge will be released from their respective obligations under, and will cease to be bound by, the Trust Deed. If the Capital Notes Arrangement is not implemented in respect of the Existing Capital Notes of any Series, then FCIL (as issuer of such Existing Capital Notes) and Fletcher Challenge (as the issuer of shares into which such Existing Capital Notes may be converted) will, to that extent, not be so released and will continue to be bound by the Trust Deed and the conditions of any such Series (and each of Fletcher Challenge, FCIL and the Trustee have in the Trust Deed agreed accordingly).

Ranking of Capital Notes

Under the Trust Deed, the rights of Noteholders are, in the event of a Liquidation, subordinated in right of payment to the claims of all other creditors of Fletcher Building, other than creditors whose securities, obligations or indebtedness are subordinated to the same extent as, or a greater extent than, the Capital Notes. The entitlement of Noteholders on a Liquidation is set out in Condition 2.2 (Status and Subordination of the Capital Notes) in each of Annexures B and C.

Under the Trust Deed, power is reserved by Fletcher Building to create and issue additional capital notes or other securities or incur indebtedness or issue obligations ranking equally with, senior to or junior to the Capital Notes as described on page 98 in the section What are my risks? and otherwise on such terms as Fletcher Building may determine.

Restrictions on Fletcher Building

The Trust Deed contains no limitations in relation to the creation of new mortgages or charges or borrowings nor any financial covenants, whether as to the ratio of assets to liabilities or otherwise.

Unpaid Interest

The Trust Deed provides that, in the event interest is not paid on any Series of Capital Notes on the due dates for payment, that interest will itself bear interest, accruing daily and it will compound on the relevant Interest Dates for that Series. Such event does not constitute a default by Fletcher Building and Noteholders have no claim other than on a Liquidation as set out in the Conditions of Capital Notes in Annexures B and C.

Fletcher Building Covenants

Fletcher Building has covenanted in the Trust Deed to notify immediately the Trustee if it does not make payment of interest on the Capital Notes and to provide financial statements and reports of the Directors of Fletcher Building as to various matters to the Trustee.

Fletcher Building has also covenanted in the Trust Deed that if the Capital Notes are quoted on the New Zealand Stock Exchange it will use its reasonable endeavours to maintain such quotation.

In addition, Fletcher Building has covenanted that it will not pay any dividends or make any other distributions in respect of its Fletcher Building Ordinary Shares if the interest payments on the Capital Notes are not paid on the due dates and for so long as the interest payments remain outstanding.

Furthermore, Fletcher Building has covenanted to use its reasonable endeavours to ensure that such Fletcher Building Ordinary Shares which are issued on conversion are entitled to be quoted on the New Zealand Stock Exchange and that such quotation is maintained.

Pursuant to the Trust Deed, Fletcher Building will provide Noteholders with copies of all communications, including annual and interim reports, which Fletcher Building sends to its shareholders at the same time as those communications are distributed to such shareholders.

Periodic Reporting to Trustee

In the Trust Deed, Fletcher Building has undertaken to supply the following to the Trustee within four months after the end of each of its financial years and half years:

- (a) copies of its consolidated financial statements; and
- (b) reports of the Directors of Fletcher Building as to various matters relating to the Capital Notes, including details of the Capital Notes on issue and compliance with the Trust Deed.

The Trustee's Duties

As subordinated indebtedness of Fletcher Building, the Capital Notes have features which distinguish them from ordinary debt securities, particularly in their limited payment rights, subordination and priority. The Trust Deed reflects these features. The Trustee's duties may therefore be summarised as being to act as

Description of the Trust Deed *continued*

agent of the Noteholders in certain limited circumstances and in particular if steps become necessary to collect or protect amounts for them. The Trustee's powers and responsibilities are accordingly circumscribed.

In particular the Trustee does not have power to:

- (a) demand or take steps to recover overdue amounts or initiate any other enforcement procedures whether in respect of monetary or non-monetary defaults; or
- (b) initiate or press for issue of Fletcher Building Ordinary Shares if the conversion does not take place in due course, although it may agree to act in accordance with instructions from Noteholders if Fletcher Building should fail to convert the Capital Notes when due.

The Trustee may among other things:

- (a) concur in and execute on its own behalf and on behalf of Noteholders instruments varying the provisions of the Trust Deed;
- (b) receive and distribute amounts paid in respect of Capital Notes (if they are not paid directly to Noteholders) holding and returning to Fletcher Building any amounts required by the terms of subordination;
- (c) in performance of its duties, rely on reports from Directors of Fletcher Building and auditors and, in the event of the Liquidation of Fletcher Building, its liquidator; and
- (d) decline to act unless protected for its costs and expenses.

Amendment of Trust Deed

The Trustee is empowered to agree to amendments to the Trust Deed with Fletcher Building in certain cases, including:

- (a) if in the opinion of the Trustee it is made to correct a manifest error, or is of a formal or technical nature, or is convenient for the purpose of obtaining or maintaining any quotation on any stock exchange and is not prejudicial to the interests of Noteholders generally; or
- (b) if the amendment is authorised by an Extraordinary Resolution of the Noteholders; or
- (c) if the Trustee is of the opinion that the amendment is not or is not likely to become prejudicial to the interests of Noteholders generally.

All of the above amendments will be binding on all Noteholders.

An Extraordinary Resolution of Noteholders is binding on all Noteholders whether or not present or represented at the meeting and is a resolution supported by not less than 75 per cent of the votes cast in person or by proxy.

Conversion of Capital Notes

Fletcher Building has undertaken in the Trust Deed to convert the Capital Notes into Fletcher Building Ordinary Shares in accordance with Conditions 4.3 and 4.4(b) set out in Annexure C on pages C3 to C5.

Miscellaneous

The Trust Deed also contains detailed provisions as to meetings of Noteholders, registration of Noteholders, transfer of Capital Notes and various other matters.

Additional Statutory Information

This section of the Information Memorandum sets out or cross-refers to the information required in a Prospectus by the Second Schedule to the New Zealand Securities Regulations 1983 (the Regulations). Defined terms set out under Glossary of Defined Terms have the same meanings where used in this section.

Main terms of offer

The issuer of the New 2006 Fletcher Building Capital Notes (and of all Novated Capital Notes) and the Fletcher Building Ordinary Shares into which they may convert is Fletcher Building. Fletcher Building's registered office is at 583 Great South Road, Penrose, Auckland, New Zealand.

The securities being offered are Capital Notes. Information is also provided on pages 85 to 87 in relation to the Fletcher Building Ordinary Shares into which they may convert.

A description of the Novated Capital Notes is under the heading Capital Notes Arrangement commencing on page 6. A description of the New 2006 Fletcher Building Capital Notes is in Main Terms of the New 2006 Fletcher Building Capital Notes commencing on page 18. The Conditions of each are set out in full in Annexure C.

Name and address of offeror

Not applicable.

Details of incorporation of Issuer

Fletcher Building was incorporated in New Zealand under the Companies Act on 19 December 2000. Fletcher Building's registered number is AK1104175. Information about the public file in respect of Fletcher Building is set out on page 81 of this Information Memorandum.

On or prior to implementation of the Building Transaction, Fletcher Building will adopt a listed company constitution which will be substantially the same as the constitution of Fletcher Challenge (for example, it will include the minority veto provisions of the three NZSE takeover regimes). However, it will not provide for a targetted share structure and it will incorporate the most recent changes to the NZSE listing rules. (See page 81 of this Information Memorandum for details as to where a copy of the Fletcher Building Constitution as proposed to be adopted on or prior to implementation of the Building Transaction is available for inspection.)

Guarantors

Not applicable.

Directorate and Advisers

The names, addresses, technical or professional qualifications and date of appointment of each Director of Fletcher Building as at the date of registration of this Information Memorandum are as follows:

Name	Technical or professional qualifications	Date of appointment
Roderick Deane	Director – PhD, LL.D (Hon), B.Com (Hons), FACA, FCIS, FNZIM	24 January 2001
Alexander Töldte	Director – BA, MBA	19 December 2000

Further Directors of Fletcher Building may be appointed following the Effective Date.

Any and all of the Directors of Fletcher Building can be contacted in New Zealand at the registered office of Fletcher Building:

583 Great South Road
Penrose
Auckland

Other than Alexander Töldte who will be Chief Executive Officer of Fletcher Building, no Director of Fletcher Building is an employee of Fletcher Building. No Director has been adjudged bankrupt during the five years preceding the date of registration of this Information Memorandum.

The names and addresses of the auditors, the registrar and the solicitors who have been involved in the preparation of this Information Memorandum are set out in the Directory on the final page of this Information Memorandum.

Grant Samuel has independently reviewed the Capital Notes Arrangement for Noteholders and a copy of Grant Samuel's report is set out in Annexure A to this Information Memorandum. The qualifications of Grant Samuel as an "expert" for the purposes of the Regulations are contained in its report. The address of Grant Samuel is set out in the Directory on the final page of this Information Memorandum. As at the date of registration of this Information Memorandum, neither Grant Samuel, nor any of its Directors, officers or employees is or is intended to be a Director, officer or employee of, or professional advisor to, Fletcher Building, Fletcher Challenge or FCIL.

Restrictions on directors' powers

On implementation of the Building Transaction, the only modifications, exceptions or limitations on the powers of the Directors of Fletcher Building will be that the Directors may not cause Fletcher Building to:

- (a) enter into certain significant transactions except with the prior approval of a resolution of shareholders;
- (b) enter into certain transactions with related parties except with the prior approval of a resolution of shareholders;

Additional Statutory Information *continued*

- (c) issue, buy back or redeem any equity securities, or give financial assistance in connection with the acquisition of any equity securities, except in the circumstances permitted by the Fletcher Building Constitution, unless approved by an ordinary resolution of each class of equity security holder whose rights or entitlements could be affected by such issue, buy back, redemption or financial assistance; or
- (d) enter into any major transaction (as that term is defined in the Companies Act) except with the approval of a special resolution of shareholders.

The Companies Act and the listing rules of the NZSE contain a number of other provisions which could have the effect or consequence, in certain circumstances, of restricting the powers of the Directors of Fletcher Building. These provisions are common to all companies registered under the Companies Act and listed on the NZSE.

Description of activities of Borrowing Group

The borrowing group, for the purposes of the Securities Act, is Fletcher Building. Fletcher Building has not commenced any business activity since incorporation on 19 December 2000. However, Fletcher Building has entered into the contracts referred to in the “Material Contracts” section on page 79 of this Information Memorandum.

Prior to completion of the Building Transaction, Fletcher Building will not hold (whether owned or held by lease) any fixed assets.

As a consequence of the Building Transaction, Fletcher Building will acquire the business of the Building Division. Further information about the acquisition of the business is set out in the Fletcher Building after Separation section on page 31 of this Information Memorandum.

Summary of financial statements

Fletcher Building has not commenced business as at the date of registration of this Information Memorandum. Accordingly, the requirements of Clause 7 of the Second Schedule to the Regulations do not apply.

Acquisition of business or subsidiary

Fletcher Building was incorporated on 19 December 2000. It has not, nor will, prior to the implementation of the Building Transaction, commence business.

As a consequence of the Building Transaction, Fletcher Building will acquire the business comprising the Building Division. The consideration payable under the Building Transaction and other information about the separation of the Building Division is set out in the Fletcher Building after Separation section on pages 31 of this Information Memorandum. A description of the business carried on by the Building

Division is also included in the section headed Fletcher Building after Separation on pages 31 to 49 of this Information Memorandum. During the last five years, while there have been no material changes in the business activities of Fletcher Challenge Limited – Building Operations, there have been a number of changes to the positions within those business activities (see Fletcher Challenge Limited – Building Operations selected financial data on pages 28 to 30 of this Information Memorandum).

The audited financial statements for, and the selected financial data of, Fletcher Challenge Limited – Building Operations are set out in Annexure D and on pages 28 to 30 of this Information Memorandum, respectively.

Material Contracts

The following material contracts (not being contracts entered into in the ordinary course of business of Fletcher Building) have been entered into by Fletcher Building during the period since its incorporation:

- The amended and restated Trust Deed dated 24 January 2001 between Fletcher Challenge, FCIL, Fletcher Building and Perpetual Trust Limited for and in respect of the Existing Capital Notes and the New 2006 Fletcher Building Capital Notes.
- The Supplemental Deed dated 24 January 2001 supplemental to the Trust Deed and made between Fletcher Building and Perpetual Trust Limited under which the New 2006 Fletcher Building Capital Notes will be constituted.
- The Capital Notes Arrangement Deed dated 24 January 2001 entered into between Fletcher Challenge, FCIL, Fletcher Building and Perpetual Trust Limited relating to the Capital Notes Arrangement (see the Capital Notes Arrangement section on pages 6 and 7 of this Information Memorandum).
- The Building Arrangement Agreement between Fletcher Challenge, FCIL and Fletcher Building dated 20 December 2000 relating to the Building Transaction (see the Overview of the Building Transaction on page 31 of this Information Memorandum).
- A put option agreement between Fletcher Building and Rubicon dated 24 January 2001 under which Rubicon has an option to require Fletcher Building to purchase up to \$117 million Fletcher Challenge Forests Preference Shares at NZ\$0.25 per share.

Pending Proceedings

No legal proceedings or arbitrations that may have a material adverse effect on Fletcher Building were pending at the date of registration of this Information Memorandum other than as described on pages 101 to 102 of this Information Memorandum.

Additional Statutory Information *continued*

Issue Expenses

Direct expenses, including NZSE fees and fees of other exchanges, registry expenses, legal, accounting, financial advisory, issue management costs and printing and distribution costs to be incurred in relation to the Capital Notes Arrangement and the New 2006 Fletcher Building Capital Notes Offer are estimated at \$1 million.

Ranking of Securities

Fletcher Building has not granted any mortgages or other charges over its assets and accordingly there are no borrowings so secured that rank ahead of, or equally with, the Capital Notes.

Registration Documents

The documents required by Section 41 of the Securities Act 1978 to be attached to the copy of this Information Memorandum registered with the Registrar of Companies are:

- (a) the Auditors' Report in respect of the financial statements for Fletcher Challenge Limited – Building Operations set out in Annexure F;
- (b) the signed consent of the Auditors to the above report appearing in this Information Memorandum;
- (c) copies of the material contracts referred to above;
- (d) an acknowledgement from the NZSE to the effect that all its requirements (other than those relating to the number of Noteholders) for the listing of the Capital Notes have been met; and
- (e) a signed consent from Grant Samuel in relation to the inclusion of the Independent Report in this Information Memorandum.

Provisions of the Trust Deed and Other Restrictions on Fletcher Building

A description of the Trust Deed relating to the Capital Notes is on pages 72 to 75.

Fletcher Building will enter into a debt facility up to \$560,000,000 which may include a requirement to meet certain financial ratios which, if not met, may restrict Fletcher Building from borrowing further debt. However, the terms of the debt facility have not yet been agreed.

Other than the matters set out above, there are no other restrictions or anticipated restrictions on the ability of Fletcher Building to borrow, being in either case restrictions which result from the undertakings given, or a contract or deed entered into, by Fletcher Building.

The Trustee's statement is in Annexure G.

Other Terms of Offers and Securities

All terms of the Capital Notes Arrangement and the New 2006 Fletcher Building Capital Notes Offer and all terms of the securities being offered are set out in this Information Memorandum, other than those:

- implied by law; or
- set out in a document that:
 - (i) is registered with a public official;
 - (ii) is available for public inspection; and
 - (iii) is referred to in this Information Memorandum.

Financial Statements

Fletcher Building has not commenced business and has not acquired an asset or incurred a debt as at the date of registration of this Information Memorandum. Accordingly, the requirements of clauses 15 to 32 (inclusive) of the Second Schedule to the Regulations do not apply to Fletcher Building in relation to the Capital Notes Arrangement or the New 2006 Fletcher Building Capital Notes Offer.

Places of Inspection of Documents

On or prior to implementation of the Building Transaction, Fletcher Building will adopt a listed company constitution. Copies of the Fletcher Building Constitution (when adopted) will be, and copies of the material contracts referred to above are, available for inspection by any person in the public file of Fletcher Building at the Companies Office, 3 Kingston Street, Auckland during normal business hours or at the registered office of Fletcher Building during normal business hours. These documents may be inspected without fee at the registered office of Fletcher Building. The Companies Office may charge a fee for inspection of certain documents. A copy of the Fletcher Building Constitution as proposed to be adopted on or prior to implementation of the Building Transaction is available for inspection at Fletcher Building's offices at 583 Great South Road, Penrose, Auckland.

Other Material Matters

There are no other material matters relating to the Capital Notes Arrangement and the New 2006 Fletcher Building Capital Notes Offer other than those matters set out elsewhere in this Information Memorandum.

Directors' Statement

The Directors of Fletcher Building, after due enquiry by them in relation to the period between 19 December 2000 (being the date of Fletcher Building's incorporation) and the date of registration of this Information Memorandum, are of the opinion that no circumstances have arisen that materially adversely affect:

Additional Statutory Information *continued*

- (a) the trading or profitability of Fletcher Building; or
- (b) the value of its assets; or
- (c) the ability of Fletcher Building to pay its liabilities (including interest on its Capital Notes) due within the next 12 months.

This Information Memorandum is issued in the context of the Building Transaction. The Building Transaction will materially affect the position of Fletcher Building taking it from a company without any business operations to a company which has acquired all the operations, assets and liabilities of the Building Division as described in this Information Memorandum. Like other businesses, Fletcher Building faces risks which, if they eventuate, may materially adversely affect the trading or profitability, or the value of the assets of Fletcher Building. An outline of the main risks faced by Fletcher Building is set out in the What are my risks? section on page 97 of this Information Memorandum.

Auditor's Report

The Auditor's Report is in Annexure F.

This Information Memorandum has been signed by Fletcher Building Limited and by or on behalf of all the Directors of Fletcher Building Limited.

Signed by Fletcher Building Limited

Signed by or on behalf of the Directors of Fletcher Building Limited:

Dr Roderick Sheldon Deane

Alexander Töldte

This Information Memorandum has been signed by the Promoters, Fletcher Challenge Limited and Fletcher Challenge Industries Limited and by or on behalf of their respective Directors

Signed by Fletcher Challenge Limited

Signed by or on behalf of the Directors of Fletcher Challenge Limited:

Michael John Andrews

Paul Edward Alex Baines

Dr Roderick Sheldon Deane

Hugh Alasdair Fletcher

Sir Dryden Thomas Spring

Kerrin Margaret Vautier

Signed by Fletcher Challenge Industries Limited

Signed by or on behalf of the Directors of Fletcher Challenge Industries Limited:

Michael John Andrews

Paul Edward Alex Baines

Dr Roderick Sheldon Deane

Hugh Alasdair Fletcher

Sir Dryden Thomas Spring

Kerrin Margaret Vautier

Regulation 5(6) Table

For the purposes of Regulation 5(6) of the Securities Regulations 1983, the matters required to be stated or contained in this Information Memorandum by virtue of the Second Schedule to the Securities Regulations 1983 are:

Matter	Second Schedule	Novated Capital Notes	Page(s) New 2006 Fletcher Building Capital Notes
Main terms of offer	Clause 1	76 2-7	76 18-23
Name and address of offeror	Clause 2	N/A	N/A
Details of incorporation of issuer	Clause 3	76	76
Guarantors	Clause 4	N/A	N/A
Directorate and Advisers	Clause 5	77, 116	77, 116
Restrictions on Directors' Powers	Clause 5A	77	77
Description of activities of issuer	Clause 6	78	78
Summary of financial statements	Clause 7	78	78
Acquisition of business or subsidiary	Clause 8	28-51, 78 Annexure D, D1-D37	28-51, 78 Annexure D, D1-D37
Material contracts	Clause 9	79	79
Pending proceedings	Clause 10	79, 101, 102	79, 101, 102
Issue expenses	Clause 11	80	80
Ranking of securities	Clause 12	80	80
Provisions of trust deed and other restrictions on issuer	Clause 13	72-75, 80	72-75, 80
Other terms of offer and securities	Clause 14	81	81
Financial statements	Clauses 15-32	N/A	N/A
Places of inspection of documents	Clause 33	81	81
Other material matters	Clause 34	81	81
Directors' statement	Clause 35	81	81
Auditor's report	Clause 36	Annexure F	Annexure F

Additional Statutory Information *continued*

The Securities Commission has resolved to grant an exemption from the Securities Regulations 1983 (the “Regulations”). This exemption has been, or will be, gazetted as the Securities Act (Fletcher Challenge Limited) Exemption Notice 2001 and permits:

- (a) the allotment of the Capital Notes to be made up to 12 months after the date of the Fletcher Challenge Limited – Building Operations Financial Statements set out in Annexure D; and
- (b) the financial statements required to be provided by clause 8(3)(f) of the Regulations to include amounts derived by using the equity method of accounting.

The exemption was granted on the condition that:

- (i) the Fletcher Challenge Limited – Building Operations Five Year Summary on page 29 of this Information Memorandum contains, for each period specified:
 - (A) a statement of the amount of the consolidated operating surplus or deficit of the Fletcher Building Group excluding any amounts derived by the use of the equity method of accounting; and
 - (B) a statement of the amount of the consolidated equity of the Fletcher Building Group excluding any amounts derived by the use of the equity method of accounting; and
- (ii) the Fletcher Challenge Limited – Building Operations Financial Statements in Annexure D on page D20 state:
 - (A) the operating surplus or deficit of the Fletcher Building Group excluding amounts derived by the use of the equity method of accounting for the most recently completed accounting period; and
 - (B) the total equity and the aggregate amount of investments of the Fletcher Building Group excluding amounts derived by the use of the equity method of accounting as at the most recent balance date.

For the purposes of the above, “Fletcher Building Group” means Fletcher Building and all its subsidiaries in respect of the periods since they became such subsidiaries.

Other Material Matters Relating to Fletcher Building Ordinary Shares

The following information is included to provide all information material to the issue of Fletcher Building Ordinary Shares. It is included in order to meet the requirements of the Securities Act (Rights, Options and Convertible Securities) Exemption Notice 1997.

Stock Exchange listings

At the date of this Information Memorandum the Fletcher Building Ordinary Shares are not listed on any stock exchange.

Application has been made to the NZSE for permission to list the Fletcher Building Ordinary Shares and all requirements of the NZSE relating thereto that can be complied with on or before the date of this Information Memorandum have been duly complied with. Application has also been made for Fletcher Building to be admitted to the official list of the Australian Stock Exchange Limited (ASX) and for quotation of the Fletcher Building Ordinary Shares by the ASX. An application has also been made to the New York Stock Exchange, Inc. (the NYSE) for listing and trading of Fletcher Building American Depositary Shares (ADSs) on the NYSE. However, none of the NZSE, ASX or NYSE accepts any responsibility for any of the contents or statements in this Information Memorandum.

There is no current intention to list the Fletcher Building Ordinary Shares on any stock exchange other than the NZSE, ASX and, in the form of Fletcher Building ADSs, the NYSE.

Fletcher Building Ordinary Shares and Fletcher Building Shareholders' Rights

Introduction

Fletcher Building Ordinary Shares may be issued by Fletcher Building upon conversion of the Capital Notes in the circumstances and in the manner described elsewhere in this Information Memorandum. This section contains particulars of all material matters relating to the offer of Fletcher Building Ordinary Shares not otherwise contained in this Information Memorandum.

The Fletcher Building Ordinary Shares will provide holders with rights to receive dividends and distributions, voting rights and rights to share in Fletcher Building's surplus assets on liquidation. The following is a summary of the material rights, privileges, restrictions and conditions attached to Fletcher Building Ordinary Shares. These rights are the rights that shareholders will have as at the date of implementation of the Building Transaction. They will be subject to change in accordance with the provisions of the Fletcher Building Constitution.

General

Each Fletcher Building Ordinary Share confers on the holder the right to:

- attend and, subject to the prohibitions in the NZSE listing rules and the Fletcher Building Constitution, vote at any meeting of shareholders including, on a poll, cast one vote for each Fletcher Building Ordinary Share held;

Other Material Matters Relating to Fletcher Building Ordinary Shares *continued*

- an equal share with other holders of Fletcher Building Ordinary Shares in dividends authorised by the Fletcher Building board of Directors in respect of Fletcher Building Ordinary Shares;
- an equal share with other holders of Fletcher Building Ordinary Shares in the distribution of surplus assets on liquidation of Fletcher Building;
- be sent certain shareholder information relating to Fletcher Building,

and any other rights as a holder of Fletcher Building Ordinary Shares conferred by the Companies Act and the Fletcher Building Constitution.

Dividends and distributions

Holders of Fletcher Building Ordinary Shares are entitled to dividends and other distributions as and when declared in respect of the Fletcher Building Ordinary Shares, subject only to the rights of holders of any other securities of Fletcher Building from time to time entitled to special or prior rights to dividends.

The board of Fletcher Building may only declare dividends if the board is satisfied on reasonable grounds that Fletcher Building will, immediately after the distribution, satisfy the solvency test (as defined in the Companies Act). Fletcher Building is legally liable to pay such dividends, upon and following their declaration.

Subject to the implications of the strategy review (refer pages 32 to 33 of this Information Memorandum), it is the intention of the board of Fletcher Building to continue the dividend policy of Fletcher Challenge in respect of the Building Division, although no decision has yet been made as to the attaching of tax credits. The policy is to pay dividends to the holders of Fletcher Building Ordinary Shares representing approximately 60 per cent of the reported net earnings of Fletcher Building after deduction of distributions to holders of any Capital Notes.

Notwithstanding the dividend policy above, the Fletcher Building board has a discretion to change its intentions, to increase or reduce dividends, to authorise dividends at different rates in respect of different classes of shares or to authorise no dividends at all on any or all classes of shares.

Fletcher Building can give no assurance about the level of dividends, if any, or the level of taxation credits attached to dividends. These levels will depend on a number of factors, including those discussed on page 97 of this Information Memorandum under the heading “What are my risks?”. No return on Fletcher Building Ordinary Shares has been promised and there can be no assurance that distributions will be paid on Fletcher Building Ordinary Shares.

The Capital Notes will include a covenant by Fletcher Building not to make any distribution or pay any dividend while any interest payable under such Capital Notes is due and outstanding, or has been suspended.

Liquidation

If Fletcher Building is put into liquidation, Fletcher Building shareholders would not receive any return on capital until Fletcher Building has paid all its creditors (including the costs of liquidation or receivership)

and fully discharged any equity securities ranking prior to the Fletcher Building Ordinary Shares. Any assets remaining after such payments would be distributed to Fletcher Building shareholders in proportion to their respective holdings. As at the date of implementation of the Building Transaction, there will be no claims ranking equally for priority of payment with Fletcher Building Ordinary Shares on liquidation.

Right to participate in Fletcher Building Ordinary Share issues

Unless otherwise agreed by the shareholders of Fletcher Building at a general meeting, or subject to specific exemptions contained in the Fletcher Building Constitution, any new Fletcher Building Ordinary Shares and any securities convertible into Fletcher Building Ordinary Shares must be offered on a pro rata basis to existing holders of Fletcher Building Ordinary Shares in proportion to the number of Fletcher Building Ordinary Shares held by them. Such offers may be renounceable, in which case the transfer of the rights arising under the offers will be subject to any restrictions imposed on the transfer of Fletcher Building Ordinary Shares under the Fletcher Building Constitution.

Buybacks

The Fletcher Building Constitution will permit Fletcher Building to buy back its Fletcher Building Ordinary Shares subject to certain requirements under the NZSE Listing Rules.

Board and Management of Fletcher Building

Corporate Governance

The names, addresses, technical or professional qualifications and date of appointment of each Director of Fletcher Building as at the date of registration of this Information Memorandum are as follows:

Name	Technical or professional qualifications	Other business activities	Date of appointment
Roderick Deane	Director – PhD, LLD (Hon), B.Com (Hons), FACA, FCIS, FNZIM	Dr Deane is chairman of Telecom New Zealand, having retired as chief executive of that company in 1999. He is also chairman of ANZ Banking Group (NZ), Te Papa Tongarewa (the Museum of New Zealand), New Zealand Seed Fund Management and New Zealand Seed Funds Partnership. Dr Deane is director of TransAlta Corporation (of Canada), Australia and New Zealand Banking Group and Woolworths (both Australian companies) and eVentures New Zealand. He is Professor of Economics and Management at Victoria University of Wellington and is on the board of governance of IHC Inc. Dr Deane has previously been chief executive of the Electricity Corporation of New Zealand, chairman of the State Services Commission, deputy governor of the Reserve Bank of New Zealand and alternate executive director of the International Monetary Fund.	24 January 2001
Alexander Töldte	Director – BA, MBA	Alexander Töldte joined Fletcher Challenge in 1999 as Chief Executive Officer of Fletcher Challenge. He was then appointed as Chief Executive of the Paper Division, prior to its sale to Norske Skogindustrier ASA. In October 2000 he was appointed as Chief Executive of the Building Division. Prior to his involvement with Fletcher Challenge, Mr Töldte was a Partner in McKinsey & Company, the international consulting group, as a co-leader of one of the global practice groups. Mr Töldte's extensive experience base expands forests industries, building materials, consumer products, automators and energy industries in both North America and Europe.	19 December 2000

Further Directors of Fletcher Building may be appointed following the Effective Date.

Any and all of the Directors of Fletcher Building can be contacted in New Zealand at the registered office of Fletcher Building:

583 Great South Road
Penrose
Auckland

Senior Management

Following implementation of the Building Transaction, the Building Division will be managed by a senior executive team comprising the Chief Executive of the Building Division, Alexander Töldte, and five other executive officers as follows:

Name	Position
M J Binns	Chief Executive – Construction, Property & Housing
N E Gunn	Chief Executive – Dry Wall Solutions
K E Howard	Chief Executive – Steel, Distribution & South America
J K Illingsworth	Chief Executive – Concrete & Infrastructure Group
W J Roest	Chief Executive – Panels, Furniture & Joinery and Windows & Doors

Each of these executive officers is currently employed by the Building Division and, with the exception of Mr Töldte who was appointed as Chief Executive of the Building Division in October 2000, has been with the Building Division for more than five years in his present or in another senior management capacity.

M J Binns joined Fletcher Challenge in 1989 from the partnership of a large New Zealand law firm. Following roles in Fletcher Property, he became Chief Executive of Fletcher Construction and he presently also has responsibility for all property-related activities of the Building Division. In addition to his operating role, Mr Binns has recently been appointed as Commercial Director for the Building Division. He has a Bachelor of Laws degree from the University of Auckland.

N E Gunn has over 20 years' experience in the dry wall business and joined Fletcher Challenge upon the merger with Winstone Limited in 1988. He became Managing Director of Winstone Wallboards in 1991. In his current role, he also has responsibility for Duroid and Cemac (Hong Kong). He has a Bachelor of Science degree from the University of Auckland.

K E Howard began his career with Fletcher Holdings Limited (a predecessor to Fletcher Challenge) in 1972, and worked in the construction, timber and residential areas of Fletcher Challenge. From 1984 to 1989, he was responsible for Firth Industries and in 1990 was appointed Managing Director of Concrete Industries, a business sector of Fletcher Challenge. Mr Howard led the Building Division's growth initiatives in South America and subsequently has had responsibility for Steel and Distribution.

J K Illingsworth joined Fletcher Challenge in 1987 following a number of engineering positions in New Zealand and the United Kingdom. Prior to his current appointment, he has held leadership positions in Winstone Aggregates and Hume Industries. He has a Bachelor of Engineering degree from the University of Canterbury and a Master of Business Administration degree from Monash/Mt Eliza University, Australia.

W J Roest held several leadership roles in the New Zealand finance sector before joining Fletcher Challenge upon the acquisition of Group Rentals in 1986. Since then, he has been Managing Director of Fletcher Residential and Fletcher Aluminium before taking up his present position as Chief Executive of Panels, Furniture & Joinery and Windows & Doors. He also has responsibility for planning, procurement and performance improvement initiatives across the Building Division. He is a member of the Institute of Chartered Accountants of New Zealand and a Fellow of the Association of Chartered Certified Accountants (UK).

Answers to Important Questions

What sort of investment is this?

This Information Memorandum relates to:

- Novated Capital Notes, which are Existing Capital Notes of each Series (other than the March 2001 Capital Notes) in relation to which Fletcher Building assumes the liability of FCIL and Fletcher Challenge by novation pursuant to the Capital Notes Arrangement;
- New 2006 Fletcher Building Capital Notes, which are long-term, unsecured, subordinated, fixed interest bearing securities issued by Fletcher Building (the New 2006 Fletcher Building Capital Notes Offer); and
- Ordinary Shares in Fletcher Building (Fletcher Building Ordinary Shares), which may be issued to electing Noteholders upon conversion of their Capital Notes on the relevant Election Dates.

Unless the context otherwise requires, references in this section to “Capital Notes” are to New 2006 Fletcher Building Capital Notes and to Novated Capital Notes.

Capital Notes Arrangement

If the Capital Notes Arrangement is approved by the holders of the Capital Notes of a particular Series and by the High Court, the liability of FCIL and Fletcher Challenge in respect of 35 per cent of the Capital Notes of that Series will be assumed (by novation) by Fletcher Building. The Conditions of the Novated Capital Notes will remain the same as the Conditions attaching to the Existing Capital Notes from which they are novated with the exceptions mentioned in Annexure C, page C1, and except that they will become convertible to Fletcher Building Ordinary Shares. The Conditions of the Novated Capital Notes will be the same as the Conditions of the New 2006 Fletcher Building Capital Notes (except for their Election Dates, interest rates and payment dates and interest calculation periods).

New 2006 Fletcher Building Capital Notes Offer

The New 2006 Fletcher Building Capital Notes Offer is to holders of the March 2001 Capital Notes to invest the proceeds of redemption of the March 2001 Capital Notes by subscribing for New 2006 Fletcher Building Capital Notes.

Fletcher Building offers New 2006 Fletcher Building Capital Notes of a Principal Amount of NZ\$30.9 million (being an amount equal to 35 per cent of the Principal Amount of the March 2001 Capital Notes) plus an amount equal to 35 per cent of the Principal Amount of the Existing Capital Notes of any Series which does not approve the Capital Notes Arrangement at the relevant Series Meeting.

The Conditions of the New 2006 Fletcher Building Capital Notes are set out in Annexure C.

Fletcher Building Ordinary Shares

The Fletcher Building Ordinary Shares that Capital Notes may convert into are fully paid Fletcher Building Ordinary Shares.

On implementation of the Building Transaction each Fletcher Building Ordinary Share held will give the

Fletcher Building shareholder the right to:

- attend and vote at a meeting of Fletcher Building Ordinary Shareholders including the right to cast one vote per Fletcher Building Ordinary Share on a poll;
- an equal share in dividends authorised by the Fletcher Building board of Directors in respect of the Fletcher Building Ordinary Shares;
- an equal share with other Fletcher Building shareholders in the distribution of surplus assets on liquidation of Fletcher Building;
- be sent certain information relating to Fletcher Building; and
- any other rights as a Fletcher Building Shareholder conferred by the Companies Act and the Fletcher Building Constitution.

Further information on the rights attaching to Fletcher Building Ordinary Shares is described under Other Material Matters Relating to Fletcher Building Ordinary Shares on pages 85 to 87.

Capital Notes Election Dates

The Existing Capital Notes carry various initial Election Dates of, namely, 15 March 2001, 31 October 2001, 15 December 2002, 15 June 2003, 30 November 2003, 15 April 2004 and 30 April 2005. The New 2006 Fletcher Building Capital Notes carry an Election Date of 15 March 2006.

On the relevant Election Date for a particular Series other than the March 2001 Capital Notes, Noteholders may elect:

- to retain their Capital Notes for a further period on new terms and conditions specified by Fletcher Building; or
- to convert some or all of their Capital Notes into Fletcher Building Ordinary Shares at 98 per cent of the then current value of Fletcher Building Ordinary Shares (as further described in Condition 4.4 of the Conditions in Annexure C on page C4). The conversion at 98 per cent means that the number of Fletcher Building Ordinary Shares to be issued on conversion is based on approximately 102 per cent of the Principal Amount of the Capital Notes. Instead of issuing Fletcher Building Ordinary Shares to Noteholders who have elected to convert their Capital Notes, Fletcher Building or its nominee may, at its option, purchase or redeem some or all of the Capital Notes for cash on the Election Date at their Principal Amount, together with any accrued but unpaid interest.

Noteholders do not benefit from any capital growth in the Fletcher Building Ordinary Shares and will not participate in any dividend, bonus issue, rights issue, or any other distribution made in respect of the Fletcher Building Ordinary Shares prior to any conversion.

Answers to Important Questions *continued*

Who is involved in providing it for me?

Issuer

The issuer of the Capital Notes is Fletcher Building whose registered office is 583 Great South Road, Penrose, Auckland. Fletcher Building was incorporated on 19 December 2000 for the purpose of acquiring the entities which own substantially all the operations, assets and liabilities attributed to the Building Division. Fletcher Building was recently incorporated and has not yet commenced business or undertaken any other activity. The Directors of Fletcher Building on the date of implementation of the Capital Notes Arrangement and issue of the New 2006 Fletcher Building Capital Notes will be: Roderick Deane and Alexander Töldte.

The issuer of any Fletcher Building Ordinary Shares will be Fletcher Building.

Substantial equity security holders of Issuer

As at the date of registration of this Information Memorandum, the only registered equity security holders of Fletcher Building were Roderick Deane and Alexander Töldte.

None of the above persons or any director or employee of Fletcher Challenge, FCIL or Fletcher Building guarantee, or otherwise undertake any liability in respect of the Capital Notes.

Trustee

The Trustee of the Capital Notes is Perpetual Trust Limited whose address is Level 3, Perpetual Trust House, 125 Albert Street, Auckland.

Promoters

Fletcher Challenge and its Directors are promoters of the Capital Notes Arrangement and the New 2006 Fletcher Building Capital Notes Offer. The registered office of Fletcher Challenge Limited is 810 Great South Road, Penrose, Auckland. The Directors of Fletcher Challenge are Michael J. Andrews of Auckland, Paul E. A. Baines of Wellington, Roderick S. Deane of Wellington, Hugh A. Fletcher of Auckland, Sir Dryden Spring of Wellington and Kerrin M. Vautier of Auckland.

Fletcher Challenge's Directors can be contacted by writing to them at the registered address of Fletcher Challenge.

FCIL and its Directors are also promoters of the Capital Notes Arrangement and the New 2006 Fletcher Building Capital Notes Offer.

FCIL's registered and principal office is located at 810 Great South Road, Penrose, Auckland. The Directors of FCIL are Michael J. Andrews of Auckland, Paul E. A. Baines of Wellington, Roderick S. Deane of Wellington, Hugh A. Fletcher of Auckland, Sir Dryden Spring of Wellington and Kerrin M. Vautier of Auckland.

All of the Directors of FCIL can be contacted by writing to them at 810 Great South Road, Penrose, Auckland.

Listing of the Capital Notes and the Fletcher Building Ordinary Shares

Application has been made to the NZSE to list the Capital Notes and the Fletcher Building Ordinary Shares and all the requirements of the NZSE relating thereto that can be complied with on or before the date of registration of this Information Memorandum have been complied with. However, the NZSE accepts no responsibility for any statement in this document.

How much do I pay?

Capital Notes Arrangement

Under the Capital Notes Arrangement no cash is payable, and the relevant proportion of Existing Capital Notes will become Novated Capital Notes pursuant to the Capital Notes Arrangement.

New 2006 Fletcher Building Capital Notes Offer

Under the New 2006 Fletcher Building Capital Notes Offer subscribers are required to pay the Issue Price of NZ\$1.00 per New 2006 Fletcher Building Capital Note. By filling in the Application Form for New 2006 Fletcher Building Capital Notes, subscribers authorise the deduction of the amount they are required to pay for New 2006 Fletcher Building Capital Notes from the proceeds of redemption of their March 2001 Capital Notes.

Applications to subscribe for New 2006 Fletcher Building Capital Notes must be for a minimum Principal Amount of \$2,000 and thereafter in multiples of \$500. Applications must be made on the Application Form contained at the back of this Information Memorandum and are to be lodged with Fletcher Building, any member of the NZSE, the Organising Broker or the Registrar, Computershare Registry Services Limited.

Allotment of New 2006 Fletcher Building Capital Notes will be made on the date on which the Capital Notes Arrangement is implemented (expected to be 23 March 2001).

What are the charges?

No charges payable by investors. Approximately \$1 million of issue costs comprising legal fees, trustee, administration and Capital Notes Arrangement fees, accounting and audit fees, printing and postage, registry fees and other costs relating to the Capital Notes Arrangement and the New 2006 Fletcher Building Capital Notes Offer will be paid by Fletcher Building. In addition, Fletcher Building will pay ongoing fees to the Trustee in accordance with the Trust Deed.

Answers to Important Questions *continued*

What returns will I get?

Capital Notes

The Capital Notes will pay a fixed Interest Rate. Interest is payable semi-annually in arrears, on the Interest Payment Dates specified for each Series.

The interest rate for Novated Capital Notes will be increased by 0.50 per cent accruing from the date on which the Capital Notes Arrangement is implemented.

Interest on the New 2006 Fletcher Building Capital Notes will accrue from 15 March 2001. The Interest Rate is 8.75 per cent. The first interest payment will be on 15 September 2001. Subsequent interest payments will be made semi-annually in arrears on each of 15 March and 15 September until the first Election Date (15 March 2006).

The Interest Rate and Interest Payment Dates for each Series of Novated Capital Notes (and the March 2001 Capital Notes) are set out in the table below.

Series	Interest Rate	First Interest Payment Date	Subsequent Interest Payment Date	Initial Election Date
March 2001 Capital Notes	8.50 per cent	To be redeemed for cash on 15 March 2001		
October 2001 Capital Notes	12.75 per cent	30 April 2001	30 April/31 October	31 October 2001
December 2002 Capital Notes	11.75 per cent	15 June 2001	15 June/15 December	15 December 2002
June 2003 Capital Notes	8.55 per cent	15 June 2001	15 June/15 December	15 June 2003
November 2003 Capital Notes	10.80 per cent	31 May 2001	31 May/30 November	30 November 2003
April 2004 Capital Notes	8.50 per cent	15 April 2001	15 April/15 October	15 April 2004
Series II 2004 Capital Notes	8.50 per cent	15 April 2001	15 April/15 October	15 April 2004
April 2005 Capital Notes	10.50 per cent	30 April 2001	30 April/31 October	30 April 2005

The first interest payment on New 2006 Fletcher Building Capital Notes will be payable to the initial holder of New 2006 Fletcher Building Capital Notes regardless of whether they have sold their New 2006 Fletcher Building Capital Notes subsequent to allotment and prior to the First Interest Payment Date for the relevant Series. Subsequent interest payments will be paid to Noteholders who are registered as Noteholders on the entitlement date for each interest payment.

Interest not paid by Fletcher Building when due is compounded on each subsequent Interest Payment Date. Non-payment of interest does not constitute a default by Fletcher Building. Except to the extent set out above, no return on the Capital Notes has been promised to Noteholders.

Fletcher Building Limited is the entity legally liable to pay the interest due on the Novated Capital Notes and the New 2006 Fletcher Building Capital Notes.

Noteholders do not benefit from any capital growth in the Fletcher Building Ordinary Shares and will not participate in any dividend, bonus issue, rights issue, or any other distribution made in respect of the Fletcher Building Ordinary Shares prior to conversion.

Conversion can only occur at an Election Date or an Early Election Date. An Early Election Date occurs if any person, either alone or acting in concert with any other person, acquires 70 per cent or more, in aggregate, of the Fletcher Building Ordinary Shares or the right to cast more than 70 per cent of the votes on a poll at a general meeting of Fletcher Building on a matter on which Fletcher Building shareholders are entitled to vote. Noteholders will have the option to convert the Principal Amount of their Capital Notes together with any accrued but unpaid interest into Fletcher Building Ordinary Shares at 98 per cent of the then current value of Fletcher Building Ordinary Shares. Fletcher Building, instead of issuing Fletcher Building Ordinary Shares, may elect to purchase (or have a nominee purchase) some or all of such Capital Notes for cash on the Election Date or Early Election Date at their Principal Amount together with any accrued but unpaid interest).

If Fletcher Building is unable lawfully to issue Fletcher Building Ordinary Shares upon conversion of the Capital Notes or if the Fletcher Building Ordinary Shares are not eligible to be quoted on the New Zealand Stock Exchange at such time, the Interest Rate from the relevant Election Date or Early Election Date (as the case may be) will be fixed by reference to a Market Rate (as defined in Condition 4.4(b) of the Conditions), unless the Trustee otherwise agrees. The period until the next Election Date can be no more than five years. For further information on this, see Condition 4.4(b) of the Conditions in Annexure C, page C5.

Where required, withholding tax or approved issuer levy will be deducted from interest paid. Tax may affect the returns to investors. Reference should be made to the Taxation Implications section which begin on pages 12, 15 and 24.

Based on legislation and circumstances pertaining at the date of this Information Memorandum, no reserve or retention will or is likely to affect returns.

Answers to Important Questions *continued*

Fletcher Building Ordinary Shares

If a Noteholder receives Fletcher Building Ordinary Shares upon conversion of Capital Notes at an Election Date or Early Election Date, those Fletcher Building Ordinary Shares will rank equally with and enjoy the same benefits as other Fletcher Building Ordinary Shares existing at that time, provided that the dividend entitlement on such Fletcher Building Ordinary Shares will only apply from the date of issue of such Fletcher Building Ordinary Shares. The dividend entitlement on such Fletcher Building Ordinary Shares is subject to the rights of holders of any other securities of Fletcher Building from time to time entitled to special or prior rights to dividends.

Returns on Fletcher Building Ordinary Shares following conversion can be by way of capital appreciation (although prices of the Fletcher Building Ordinary Shares may also fall), and Fletcher Building shareholders will also be entitled to any distributions made by Fletcher Building in accordance with the Companies Act, the Fletcher Building Constitution and its distribution policy.

Key factors determining the level of distributions paid on Fletcher Building Ordinary Shares are profitability and liquidity of Fletcher Building and capital expenditure, and/or other alternative applications of funds available to it.

Dividends on Fletcher Building Ordinary Shares

Fletcher Building has covenanted in the Trust Deed not to pay dividends or make any other distribution in respect of the Fletcher Building Ordinary Shares if the interest payments on the Capital Notes are not paid on the due dates and for so long as the interest payments remain outstanding.

Dividends on the Fletcher Building Ordinary Shares are declared at the discretion of the board of Fletcher Building.

The board of Fletcher Building may only declare dividends if the board is satisfied on reasonable grounds that Fletcher Building will, immediately after the distribution, satisfy the solvency test (as defined in the Companies Act). Fletcher Building Limited is legally liable to pay such dividends, upon and following their declaration.

Subject to the implications of the strategy review (refer to pages 32 to 33 of this Information Memorandum), it is the intention of the board of Fletcher Building to continue the dividend policy of Fletcher Challenge in respect of the Building Division, although no decision has yet been made as to the attaching of tax credits. Accordingly, the policy is to pay dividends to the holders of Fletcher Building Ordinary Shares representing approximately 60 per cent of the reported net earnings of Fletcher Building after deduction of distributions to holders of any Capital Notes.

Notwithstanding the dividend policy above, the Fletcher Building board has a discretion to change its intentions, to increase or reduce dividends, to authorise dividends at different rates in respect of different classes of Fletcher Building Ordinary Shares or to authorise no dividends at all on any or all classes of Fletcher Building Ordinary Shares.

Fletcher Building can give no assurance about the level of dividends, if any, or the level of taxation credits attached to dividends. These levels will depend on a number of factors, including those discussed on pages 97 to 103 of this Information Memorandum under the heading What are my risks?.

No return on Fletcher Building Ordinary Shares has been promised and there can be no assurance that distributions will be paid on Fletcher Building Ordinary Shares.

Following declaration, dividends or other distributions declared by Fletcher Building constitute an unsecured legal liability of Fletcher Building.

What are my risks?

The following risk factors should be considered by Noteholders in evaluating whether to approve the Capital Notes Arrangement and vote in favour of the Resolutions and/or whether to subscribe for New 2006 Fletcher Building Capital Notes. Some of these risk factors relate directly to the Capital Notes Arrangement while others relate to the business and prospects of Fletcher Building and/or Fletcher Challenge and/or FCIL and their respective affiliates, independent of the Capital Notes Arrangement. These risk factors should be considered in conjunction with the other information included in this Information Memorandum and the Notice of Meeting. Noteholders are urged to read carefully this section in its entirety.

1. Capital Notes

(a) Repayment of Original Investment

The principal risk to Noteholders is that they may not be able to recover their original investment. This could happen for a number of reasons including:

- the price at which investors are able to sell their Capital Notes on the market is less than the price they have paid for them;
- investors are unable to sell their Capital Notes because there is no market for them;
- there is no market for the Fletcher Building Ordinary Shares into which the Capital Notes can, in certain circumstances, convert;
- the price at which investors are able to sell their Fletcher Building Ordinary Shares is less than the value at the time of conversion;
- Fletcher Building becomes insolvent, or otherwise financially unable to pay interest due on, or other amounts in respect of, the Capital Notes; or
- if Fletcher Building is unable to lawfully issue Fletcher Building Ordinary Shares upon conversion or if Fletcher Building Ordinary Shares are not eligible to be quoted on the NZSE, the Interest Rate from the relevant Election Date or Early Election Date (as the case may be) will be fixed by reference to a Market Rate (as defined in Condition 4.4(b) of the Conditions of Annexure C on page C5), unless the Trustee otherwise agrees. For further information on this see Condition 4.4(b) of Annexure C on page C5.

Answers to Important Questions *continued*

- the Existing Capital Notes are presently backed by the assets and cash flows of FCIL (i.e. essentially the assets and cash flows of the Building Division, Energy Division and Forests Division of Fletcher Challenge). After implementation of the Capital Notes Arrangement, the Novated Capital Notes and the New 2006 Fletcher Building Capital Notes will be backed by, essentially, the assets and cash flows of the current Building Division of Fletcher Challenge after the sale or transfer of the assets and liabilities referred to on page 4.

A breach by Fletcher Building of its obligations under the Trust Deed or the Conditions, whether a monetary or non monetary breach, does not entitle the Trustee or the Noteholders to require Fletcher Building to repay or redeem the Capital Notes.

(b) Capital Notes Interest Payments

There is also a risk that Fletcher Building will not be able to meet the interest payments described above. This could happen for a number of reasons including the profitability and/or liquidity of Fletcher Building or the New Zealand businesses it will directly or indirectly own and control.

Fletcher Building will be a holding company and will have no material revenue streams other than distributions from its subsidiaries. Those subsidiaries do not guarantee the Capital Notes.

Non-payment of interest does not constitute a default. Fletcher Building has agreed, however, not to pay or make any distributions in respect of its Fletcher Building Ordinary Shares if it has failed to pay any interest due on the Capital Notes until all outstanding due interest is paid.

(c) Subordinated Nature

The Capital Notes are subordinated instruments and Noteholders are in a position akin to that of shareholders with rights, including a ranking in the liquidation of Fletcher Building, behind that of all other creditors. The Trust Deed under which the Capital Notes are constituted, and the duties and powers of the Trustee, are very limited and quite different from those generally relating to debt securities.

All of Fletcher Building's obligations and the Noteholders' rights in respect of the Capital Notes are subordinated to (rank after) the rights of all other creditors of Fletcher Building (other than creditors whose claims are expressed to rank equally with or subordinate to the Noteholders' claims). Accordingly, all such claims rank ahead of the claims of Noteholders in the event of Fletcher Building being put into liquidation.

In accordance with their subordinated nature, special terms apply to the Capital Notes, which, among other things, restrict the payments which may be made on the Capital Notes and restrict the rights and powers of the Trustee and/or the Noteholders to enforce or compel payment by Fletcher Building. The subordination provisions and limitations on rights are set out in Condition 2.2 of the Conditions in Annexure C on page C1.

(d) Further Issues

Subject to the NZSE Listing Rules, the Australian Stock Exchange Listing Rules (if applicable) and the Fletcher Building Constitution, Fletcher Building may from time to time without the consent of the holders

of the Capital Notes (including the New 2006 Fletcher Building Capital Notes), create and issue further capital notes, ordinary shares or other securities or incur indebtedness or issue obligations ranking pari passu in all respects with, junior to, or senior to, the Capital Notes and otherwise on such terms as Fletcher Building may determine. Any such issues of capital notes may be subject to appointment of a trustee in respect of such further capital notes and to shareholder approval. Any further capital notes will be constituted by a deed (in a form agreed to by Fletcher Building and the Trustee) supplemental to the Trust Deed.

The only claims which will rank equally with the claims of Noteholders will be claims in respect of debt or notes which by their terms of issue are specifically stated to rank equally with the Capital Notes. No such debt or notes has or have been issued by Fletcher Building as at the date of this Information Memorandum.

(e) Liquidation and Insolvency

Prior to any liquidation of Fletcher Building, neither the Trustee nor the Noteholders would have any rights of recourse against Fletcher Building.

Noteholders or, as the case may be, Fletcher Building shareholders, will not be required to pay additional amounts over and above the Principal Amount of the Capital Notes for any reason, including to any person as a result of any insolvency of Fletcher Building.

2. Fletcher Building Ordinary Shares – Risks

(a) Repayment of Original Investment

The major risk to investors in Fletcher Building Ordinary Shares is that of being unable to recover their original investment. This could happen for a number of reasons including if:

- the price at which investors are able to sell their Fletcher Building Ordinary Shares is less than the value of the Fletcher Building Ordinary Shares at the time of conversion; or
- investors are unable to sell their Fletcher Building Ordinary Shares because the market for Fletcher Building Ordinary Shares does not develop after separation, becomes illiquid or ceases to exist; or
- Fletcher Building is placed in receivership or liquidation or becomes insolvent for any reason; or
- there is a material deterioration in Fletcher Building's operating performance which affects the share price of Fletcher Building Ordinary Shares; or
- if Fletcher Building's operational and financial performance deteriorates from market expectations at the time of conversion, the future market price for Fletcher Building Ordinary Shares may be less than their value at the time of conversion and investors' returns on their Fletcher Building Ordinary Shares may be less than anticipated.

The Fletcher Building Ordinary Share price performance is dependent on a number of complex and interrelated factors, any of which could have a material adverse effect on Fletcher Building's results of

Answers to Important Questions *continued*

operations. A brief description of the principal risks which may affect the Fletcher Building Ordinary Share price are set out below. These include:

- the cyclical pattern of the building industry, including the levels of demand and manufacturing capacity in the Australasian region;
- increased competition, including competitors with greater financial resources and lower cost production;
- variations in exchange rates;
- variations in interest rates;
- variations in immigration levels;
- any significant decline in price of products produced by Fletcher Building;
- unforeseen or significant expenditure required to allow Fletcher Building to be in compliance with environmental and other laws;
- increased requirements for capital expenditure;
- actions by government authorities; and
- other factors influencing returns described under What returns will I get? above.

The Fletcher Building Ordinary Shares investors receive on conversion will be fully paid. Investors will not be liable to pay any money to any person at any time, including in the event of Fletcher Building's insolvency. In the event that Fletcher Building is put into liquidation, Fletcher Building shareholders would not receive any return of capital until Fletcher Building has paid all its creditors and fully discharged any equity securities ranking prior to the Fletcher Building Ordinary Shares. Any assets remaining after such payments would be distributed to Fletcher Building shareholders in proportion to their respective holdings. There are no other claims ranking equally or in priority of payment with Fletcher Building Ordinary Shares on liquidation.

Risks relating to the industry and the business of Fletcher Building

Fletcher Building is dependent upon the general performance of the national economies in which it operates

Demand for Fletcher Building products and services, and both the volumes it can sell and the prices at which it can sell them, is dependent upon the general performance of the different national and regional economies in which it operates, especially the economies of New Zealand, Australia, Peru and Bolivia. Reduced or negative growth of any of these economies generally, or reduced demand in their construction industries in particular, could have a material adverse effect on the financial condition or financial results of Fletcher Building. Fletcher Building is also dependent on the economies into which it exports products, or from which imports originate that may affect Fletcher Building's market share or the prices of Fletcher Building's products in New Zealand.

Fletcher Building has specific short term risks relating to the current economic conditions in its principal markets

During the most recent fiscal year, just over 70 per cent of the Building Division's operating revenue was attributable to New Zealand markets. Since 30 June 2000, there has been a significant softening in the residential construction market in New Zealand. Although this has been partly offset by an increase in the non-residential construction markets, the overall effect is negative. This will affect Fletcher Building's financial results for the current period.

With respect to Fletcher Building's South American operations, the uncertain political and economic situation in both Peru and Bolivia has affected the trading outlook for Fletcher Building's operations in these countries.

Fletcher Building's strategic review of its businesses may result in asset write-downs

Fletcher Building is involved in a number of industry sectors in which there has been rationalisation and consolidation in the Australasian market. As a consequence of this, and in conjunction with separation, Fletcher Building is currently conducting a full strategic review of its businesses. This review may result in a portfolio realignment, and the exit over time of under-performing and non-core assets, with a write-down of the value of certain businesses or assets in the financial statements of Fletcher Building.

Fletcher Building self-insures up to US\$10 million

Fletcher Building takes out coverage for those insurable risks associated with its business operations, that it considers would result in a loss of US\$10 million or more (for any one loss). Fletcher Building effectively self-insures up to US\$10 million for each event. Prior to implementation of the Building Transaction, the Building Division effectively self-insured up to US\$25 million for each event.

The construction industry is high risk

Construction is a high-risk industry and earnings can be volatile. The industry by its nature can be adversarial and differences can arise between the parties involved with any construction project. Dealing with and resolving these differences and any resulting legal proceedings is part of the normal course of business for Fletcher Construction, and can affect earnings significantly. Other than the specific Fletcher Construction matters as set out below, there are no current or pending legal proceedings which could have a material adverse effect on its financial condition or results of operation.

The Victorian Hospitals Co-Generation Project dispute may involve a significant payment by Fletcher Construction

Fletcher Construction is involved in an arbitration in Melbourne, Australia concerning a project known as the Victorian Hospitals Co-Generation Project. The project was completed in December 1994 but the parties involved in the project have been in dispute since that time. Proceedings were initiated in May 1997 and arbitration commenced in May 2000. Fletcher Construction is proceeding with claims for unpaid monies under the contract and the client (a subsidiary of AXA Pacific, formerly National Mutual Life

Answers to Important Questions *continued*

Association of Australasia) has made a significant counterclaim for non-performance under the contract. Fletcher Construction is in discussions to resolve this dispute which could result in Fletcher Construction increasing the amount of the required provision for this dispute. However, if the arbitration proceeds it is expected to last for about three years. A provision for this arbitration has been established in the Building Division's 30 June 2000 financial statements, although involvement in the litigation process is by its nature high risk. No assurance can be given that the outcome of the dispute will not have a material adverse effect on Fletcher Building's financial condition or results of operation.

Manapouri Tailrace Tunnel Project is behind schedule and Fletcher Building may record a loss on that project

Fletcher Construction is a party to a joint venture with Dillingham Construction International Inc. and Ilbau G.m.b.H (known as "FDI") which is the contractor for the construction of the Second Manapouri Tailrace Tunnel.

Construction of the tunnel has been delayed and is significantly behind schedule. FDI has claimed that the primary reason for the delay is differing site conditions which, in terms of the contract, are physical conditions encountered which differ from those prescribed in a pre-contract Geotechnical Baseline Report. FDI has lodged claims pursuant to the contract for an extension of time and costs resulting from the differing conditions. It is anticipated that a disputes review board (which is established under the contract) will hear the first of these disputes during the first quarter of calendar 2001. Fletcher Construction has established a provision in relation to the contract in its financial statements which is considered to be appropriate, although involvement in the arbitration process is by its nature high risk. No assurance can be given that the outcome of the dispute will not have a material adverse effect on Fletcher Building's financial condition or results of operation.

Fletcher Construction has residual obligations on operations that have been exited

Over the last five years, Fletcher Construction has closed a number of operations in Asia and Australia. It retains liability for any latent defects with respect to work completed in these jurisdictions.

In the United States, Fletcher Construction sold its construction businesses and provided purchasers with indemnities from any liabilities with respect to work completed prior to the sale of the business taking effect.

Fletcher Building is subject to certain regulatory reviews

The Building Division has been the subject of a number of investigations by the New Zealand Commerce Commission. As at the date of this Information Memorandum, the Commerce Commission was undertaking the following investigations in relation to the Building Division under the Commerce Act:

- An investigation into whether certain pricing practices by Golden Bay Cement in Hawkes Bay and Taranaki constitute a breach of the provisions of the Commerce Act 1986.
- An investigation as to whether certain arrangements between Firth, Golden Bay Cement, Fletcher

Challenge and Allied Concrete Limited, Allied Milburn Limited and Milburn New Zealand Limited give rise to a substantial lessening of competition in a relevant market. The Commerce Commission's investigation has covered the time period from 1996 to 1999.

- An investigation into the shared use of readymix plants at Henderson and Takanini, both in Auckland, by Firth and Stevensons (a competitor in the readymix industry).

These investigations by the Commerce Commission are ongoing. The Building Division considers that it has not breached the Commerce Act 1986.

Fletcher Building is subject to compliance costs under environmental regulations

The costs of compliance with the various environmental and pollution control regulations imposed by governmental authorities in the jurisdictions in which Fletcher Building will conduct its operations has been increasing in recent years. If more stringent environmental standards are imposed in the future, the costs of compliance could adversely affect Fletcher Building's results of operations in these industries. However, it will not be possible to predict or quantify such effect until such environmental standards are proposed and enacted.

Fletcher Building considers that its activities are in compliance in all material respects with applicable environmental laws and regulations. Environmental matters are discussed in more detail under the "Fletcher Building after Separation – Environmental issues" section on page 49 of this Information Memorandum.

The process used to effect the separation of Fletcher Building could be recharacterised, or viewed differently, for taxation purposes

As part of the reorganisation and amalgamation of the companies that own the assets and liabilities attributed to the Building Division, the tax value of assets was restated to the lower of the original cost or market value in accordance with a tax ruling issued by the Inland Revenue Department. This has created a deferred tax asset which will be available for amortisation against future taxable earnings. The value of the deferred tax asset could change if the Inland Revenue Department does not accept the restated tax values of the assets.

The Building Transaction involves, in broad terms, the exchange by Fletcher Challenge Building shareholders of their Fletcher Challenge Building Shares for Fletcher Building Ordinary Shares, and the exchange by FCIL of its shares in Fletcher Challenge for shares of Building Holdings Limited.

As this process is the only commercially feasible method identified to effect the separation, Fletcher Challenge believes that the Building Transaction will not give rise to any taxation costs for Fletcher Building. While Fletcher Challenge cannot see that there is a basis for the Inland Revenue Department to recharacterise the transaction for taxation purposes, if they were to do so, then material additional tax costs for Fletcher Building could arise, depending on the nature of that recharacterisation.

Answers to Important Questions *continued*

Can the investment be altered?

The terms and conditions on which investors may apply for and acquire New 2006 Fletcher Building Capital Notes may be altered by an amendment to this Information Memorandum by Fletcher Building. Details of any such amendment must be filed with the Registrar of Companies.

The terms and conditions attaching to Capital Notes may only be altered during the term of the Capital Notes with the approval of an Extraordinary Resolution of Noteholders or otherwise by an amendment to the Trust Deed.

The terms and conditions of the Trust Deed itself may only be altered with the approval of the Trustee and Fletcher Building. Minor or non-prejudicial amendments, or amendments required in order to ensure compliance with statutory or regulatory requirements, do not generally require Noteholder consent. Otherwise, amendments must be approved by an Extraordinary Resolution of Noteholders.

At each Election Date, Fletcher Building may vary the terms of the Capital Notes at its complete discretion in the manner set out in Condition 4.1 of the Conditions in Annexure C on page C3.

On implementation of the Building Transaction, the rights of Fletcher Building shareholders will be subject to the provisions of the Companies Act, the Fletcher Building Constitution, and the New Zealand Stock Exchange Listing Rules as well as the listing rules of other stock exchanges upon which the Fletcher Building Ordinary Shares may be listed. The Fletcher Building Constitution can be altered by special resolution of the Fletcher Building shareholders. Under certain circumstances a Fletcher Building shareholder whose rights are affected by a special resolution may require Fletcher Building to purchase that holder's Fletcher Building Ordinary Shares.

How do I cash in my investment?

On each Election Date a Noteholder can elect to convert Capital Notes into Fletcher Building Ordinary Shares. Fletcher Building (or its nominee) has the right to purchase or redeem some or all of such Capital Notes for cash (notwithstanding the Noteholder's election in respect of such Capital Notes).

Noteholders are entitled to sell and/or transfer their Capital Notes at any time subject to the terms of the Trust Deed, applicable securities laws and regulations and the Overseas Investment Regulations. The Trust Deed provides that, by becoming the registered holder of a Capital Note, the transferee automatically agrees to be bound by all of the terms of the Trust Deed.

Capital Notes may be transferred by contacting a member of the NZSE and supplying the relevant FASTER Identification Number, along with the Holder number for the Capital Notes, or by any other method of transfer of marketable securities which is not contrary to any law, and which may be operated in accordance with the listing rules of the NZSE, or any other applicable stock exchange which is approved by Fletcher Building.

No transfer will be registered during the periods specified in Condition 5.2(d) of the Conditions in Annexure C on page C7 or if registration would result in the purchaser holding less than \$2,000 in Principal Amount of Capital Notes of any one Series. Subject to this minimum holding, transfers of Capital Notes must be in multiples of 500 Capital Notes of the same Series.

It is anticipated that the Fletcher Building Ordinary Shares will be quoted and tradeable on the NZSE and the Australian Stock Exchange (ASX) and Fletcher Building American Depositary Shares (ADSs) will be quoted and tradeable on the New York Stock Exchange (NYSE).

Application has been made to the NZSE for permission to list the Capital Notes. All requirements of the NZSE relating thereto that can be complied with on or before the date of distribution of this Information Memorandum have been duly complied with. Application has also been made for Fletcher Building to be admitted to the official list of the ASX and for quotation of Fletcher Building Ordinary Shares by the ASX and for quotation and listing of Fletcher Building ADSs on the NYSE. However, none of the NZSE, ASX or NYSE accepts any responsibility for any of the contents or statements in this Information Memorandum.

Fletcher Building has covenanted in the Trust Deed to use its reasonable endeavours to ensure that the Fletcher Building Ordinary Shares which are issued on conversion are entitled to be quoted on the New Zealand Stock Exchange and that such quotation is maintained.

Subject to compliance with general statutory filing, disclosure and other requirements in applicable jurisdictions, Fletcher Building shareholders are entitled to sell or transfer Fletcher Building Ordinary Shares. The Directors of Fletcher Building expect that, following implementation of the Building Transaction, an established market for Fletcher Building Ordinary Shares will develop in New Zealand, Australia and the United States once the Shares are listed on exchanges within these countries. No charges are payable to Fletcher Building in respect of any sale or transfer of Fletcher Building Ordinary Shares although brokerage at applicable rates may be payable by the investor.

Who do I contact with enquiries about my investment?

Enquiries about Capital Notes and/or Fletcher Building Ordinary Shares should be directed to:

Corporate Secretary
Fletcher Building Limited
583 Great South Road
Penrose
Auckland
Telephone: 09-525 9000

Is there anyone to whom I can complain if I have problems with the investment?

Complaints about Capital Notes and/or Fletcher Building Ordinary Shares can be directed to:

Corporate Secretary
Fletcher Building Limited
583 Great South Road
Penrose
Auckland
Telephone: 09-525 9000

Further, in relation to the Capital Notes, the Trustee has an obligation to call a meeting of Noteholders if the holders of not less than 10 per cent of the nominal value of all Capital Notes make a written request to

Answers to Important Questions-continued

do so. Any such request, should be directed to the Trustee at the address below:

Level 3
Perpetual Trust House
125 Albert Street
Auckland
Telephone: 09-366 3290
Facsimile: 09-366 3299

There is no ombudsman for this type of investment and therefore no complaints can be made to an ombudsman.

What other information can I obtain about this investment?

Other information about the Novated Capital Notes, the New 2006 Fletcher Building Capital Notes, the Fletcher Building Ordinary Shares and Fletcher Building is contained in this Information Memorandum, the Trust Deed, the Information Memorandum prepared in relation to the Separation Transaction (Separation Information Memorandum) and in the financial statements to be issued in respect of Fletcher Building (once available).

Further copies of this Information Memorandum, and copies of the Trust Deed, the Separation Information Memorandum and the most recent financial statements of Fletcher Building (once available), can be obtained free of charge from Fletcher Building during normal business hours at either of the addresses set out above.

A copy of this Information Memorandum, the documents attached to it when it was registered (being the material contracts referred to on page 79 and the auditors' reports and consent relating to the financial information and the consent of Grant Samuel relating to the Independent Report) are filed on a publicly available register at the Companies Office of the Ministry of Economic Development, 3 Kingston Street, Auckland.

Fletcher Building shareholders and Noteholders will receive, on an annual basis, a copy of Fletcher Building's most recent annual report which will include Fletcher Building's audited financial statements and a report on the activities of Fletcher Building. In addition, Fletcher Building shareholders and Noteholders will receive interim reports which will include Fletcher Building's unaudited half yearly financial statements.

On request information

Noteholders and Fletcher Building shareholders may at any time, in accordance with section 54B of the Securities Act 1978 and Regulation 23A of Securities Regulations 1983, request Fletcher Building (by written notice to the address set out under Who do I contact with enquiries about my investment?) to provide, and are entitled on payment of any fee prescribed by statute to be sent:

- (a) a copy of the most recent annual report of Fletcher Building required to be registered under the Financial Reporting Act 1993 and all documents required to be registered with those documents;
- (b) a copy of the most recent financial statements of Fletcher Building; and
- (c) a copy of the Trust Deed.

Glossary of Defined Terms

Glossary of defined terms

In this Information Memorandum, unless the context otherwise requires, the following terms have the following meanings:

Application Form means the application form relating to the New 2006 Fletcher Building Capital Notes Offer;

Assets and Liabilities Deed means the amended and restated deed relating to assets and liabilities between Fletcher Challenge and Fletcher Challenge Paper Limited dated 3 April 2000 and:

(a) pursuant to a deed of accession made on 10 October 2000 between Fletcher Challenge and Energy International Holdings Limited, Energy International Holdings Limited; and

(b) pursuant to a deed of accession made on 20 December 2000 between Fletcher Challenge and Fletcher Building, Fletcher Building,

as supplemented by the deed relating to the Energy Division separation made on 10 October 2000 between Fletcher Challenge, Energy International Holdings Limited and FCIL;

Building Arrangement means the arrangement proposed to be undertaken by Fletcher Building, Fletcher Challenge, FCIL and certain of their respective subsidiaries under section 236 of the Companies Act on the terms and subject to the conditions set out in the plan of arrangement concerning the Building Arrangement;

Building Arrangement Agreement means the arrangement dated 20 December 2000 between Fletcher Challenge, FCIL and Fletcher Building;

Building Division means the business Division of the Fletcher Challenge Group responsible for its designated building industries businesses;

Building Transaction means the transaction to separate the Building Division from the Fletcher Challenge Group;

Business Day means a day (other than a Saturday or Sunday) on which banks generally are open for general banking business in Auckland;

Capital Notes means the Existing Capital Notes and the New 2006 Fletcher Building Capital Notes (and includes any Novated Capital Notes);

Capital Notes Arrangement means the arrangement relating to the Existing Capital Notes (excluding the March 2001 Capital Notes) proposed to be undertaken by Fletcher Challenge Limited, Fletcher Challenge Industries Limited and Fletcher Building Limited under Section 236 of the Companies Act on the terms and subject to the conditions set out in the Capital Notes Arrangement Deed;

Capital Notes Arrangement Deed means the arrangement deed relating to the Capital Notes Arrangement dated 24 January 2001 entered into between Fletcher Challenge, FCIL, Fletcher Building and Perpetual Trust Limited, as amended;

Cash Out Balance means an amount which (subject to rounding) is equal to 65 per cent of the Principal Amount (excluding Accrued Interest) of each holder's Existing Capital Notes;

Cash Out Payment means an amount equal to the present value of the remaining cash flows (future interest payments and repayment of principal discounted at the sum of the relevant Government Stock Yield Rate and the Interest Rate Margin) of each Series of Capital Notes to the next relevant Election Date;

Closing Date means, the earlier to occur of (i) the date on which the Maximum Issue Amount of New 2006 Fletcher Building Capital Notes is subscribed for and (ii) the date on which the New 2006 Fletcher Building Capital Notes Offer is closed by the Directors of Fletcher Building;

Companies Act means the Companies Act 1993;

Conditions means the conditions of the Capital Notes;

Division means one of the three business divisions of Fletcher Challenge;

Effective Date means the date on which each of the Energy Arrangement and the Building Arrangement becomes effective in accordance with the terms of the Companies Act and the Final Separation Transaction Court Orders (expected to be 23 March 2001);

Election Date means in relation to a Series of Capital Notes, the date on which that Series of Capital Notes is able to be renewed, converted or repurchased in accordance with their Conditions;

Election Notice has the meaning in Condition 4.1;

Election Record Date has the meaning in Condition 4.1;

Energy Arrangement means the arrangement proposed to be undertaken by Shell Overseas Holdings Limited, Fletcher Challenge and Energy Exploration Holdings Limited (a wholly-owned subsidiary of Shell Overseas Holdings Limited) and Energy International Holdings Limited and Rubicon and certain of their respective subsidiaries, pursuant to section 236 of the Companies Act on the terms and subject to the conditions set out in the plan of arrangement concerning the Energy Arrangement;

Energy Division means the business Division of the Fletcher Challenge Group responsible for its designated petroleum and gas businesses;

Energy Transaction means the transaction to sell the Energy Division to Shell Overseas Holdings Limited and Apache Corporation described in this Information Memorandum, including implementing the Energy Arrangement, to be approved by Fletcher Challenge Shareholders;

Existing Capital Notes means the Capital Notes of each of the March 2001 Series, the October 2001 Series, December 2002 Series, June 2003 Series, November 2003 Series, April 2004 Series, Series II 2004 and April 2005 Series of Capital Notes on issue on the date of this Information Memorandum;

Glossary *continued*

Existing Capital Notes Conditions means the Conditions of the Existing Capital Notes set out in Annexure B;

Extraordinary Resolution means a resolution of the holders of the Capital Notes of any Series passed at a Series Meeting duly convened and held by a majority consisting of not less than three-quarters of the votes cast thereon or, if a poll is required, by not less than three-quarters of the votes cast on the poll;

FCIL means Fletcher Challenge Industries Limited;

Final Separation Transaction Court Orders means the final orders of the Court approving (among other things) certain transactions contemplated in the plan of arrangement concerning the Building Arrangement and the plan of arrangement concerning the Energy Arrangement that the Court has jurisdiction to approve and the fairness of the terms and conditions thereof;

Fletcher Building means Fletcher Building Limited;

Fletcher Building Constitution means the Constitution of Fletcher Building from time to time;

Fletcher Building Ordinary Shares means fully paid ordinary shares in Fletcher Building;

Fletcher Challenge means Fletcher Challenge Limited (to be renamed Fletcher Challenge Forests Limited upon completion of the Separation Transaction);

Fletcher Challenge Board or **Board** means the board of directors of Fletcher Challenge or where appropriate, the board of directors of Fletcher Challenge Forests Limited;

Fletcher Challenge Building Shares means the Fletcher Challenge Building Shares in the capital of Fletcher Challenge;

Fletcher Challenge Energy Shares means the Fletcher Challenge Energy Shares in the capital of Fletcher Challenge;

Fletcher Challenge Forests Group means Fletcher Challenge, FCIL and forestry operations, essentially all the assets and operations attributable to the Forests Division;

Fletcher Challenge Forests Ordinary Shares means ordinary shares in the capital of Fletcher Challenge;

Fletcher Challenge Group means Fletcher Challenge Limited and its subsidiaries;

Fletcher Challenge Forests Preference Shares means the Fletcher Challenge Forests preference shares in the capital of Fletcher Challenge (alternatively called "Series A Forests Shares");

Fletcher Challenge Forests Shareholders means the holders at the relevant time of the Fletcher Challenge Forests Shares;

Fletcher Challenge Forests Shares means, collectively, the Fletcher Challenge Forests Ordinary Shares and the Fletcher Challenge Forests Preference Shares;

Fletcher Challenge Industries means Fletcher Challenge Industries Limited;

Fletcher Challenge Shareholders and Shareholders mean collectively, the holders at the relevant time of the Fletcher Challenge Building Shares, Fletcher Challenge Energy Shares and Fletcher Challenge Forests Shares;

Fletcher Challenge Shares means, collectively, the Fletcher Challenge Building Shares, Fletcher Challenge Energy Shares and Fletcher Challenge Forests Shares;

Forests Division and Fletcher Challenge Forests means the business Division of the Fletcher Challenge Group responsible for its designated forests businesses;

Government Stock Yield Rate has the meaning in Condition 4.4(b) of the Conditions;

Grant Samuel means Grant Samuel & Associates Limited;

Independent Report means the independent report of the Capital Notes Arrangement prepared by Grant Samuel, which is set out in Annexure A;

Information Memorandum means this Information Memorandum and its annexures;

Interest Rate Margin means 1.5 per cent above the relevant Government Stock Yield Rate;

Interest Rate Set Date means the day which is two business days prior to the Closing Date;

Investment Statement means the investment statement incorporated in this Information Memorandum;

Issue Price means, in relation to a New 2006 Fletcher Building Capital Note, the price of \$1.00 per New 2006 Fletcher Building Capital Note payable pursuant to the New 2006 Fletcher Building Capital Notes Offer;

March 2001 Capital Notes means those Existing Capital Notes which have an Election Date of 15 March 2001;

Maximum Issue Amount means the amount of New 2006 Fletcher Building Capital Notes Fletcher Building is offering for subscription being an aggregate principal amount of \$30.9 million plus an amount equal to 35 per cent of the Principal Amount of the Existing Capital Notes of any Series the holders of which do not approve the Capital Notes Arrangement at the relevant Series Meeting;

New 2006 Fletcher Building Capital Notes means the Capital Notes of Fletcher Building offered under the New 2006 Fletcher Building Capital Notes Offer;

New 2006 Fletcher Building Capital Notes Conditions means the Conditions of the New 2006 Fletcher Building Capital Notes set out in Annexure C;

New 2006 Fletcher Building Capital Notes Offer means the offer of New 2006 Fletcher Building Capital Notes for cash subscription pursuant to the Investment Statement and Prospectus contained in this Information Memorandum;

New Zealand Stock Exchange or NZSE means the New Zealand Stock Exchange and includes any alternative or substitute market for Fletcher Building Ordinary Shares or other arrangement in New

Glossary *continued*

Zealand on which, or through the medium of which, Fletcher Building Ordinary Shares may be freely traded and which is generally regarded as the principal market or other arrangement for trading of Fletcher Building Ordinary Shares in New Zealand;

Noteholder means a holder of Existing Capital Notes or New 2006 Fletcher Building Capital Notes as the context requires;

Notice of Meeting means the notice of meeting issued by Fletcher Challenge Industries Limited for the purpose of convening the Series Meetings;

Novated Capital Notes means those Capital Notes which Fletcher Building assumes the liabilities and obligations of Fletcher Challenge and FCIL in respect of pursuant to the Capital Notes Arrangement;

Organising Broker means Credit Suisse First Boston NZ Securities Limited;

Paper Division means the previous business division of the Fletcher Challenge Group responsible for its designated paper industry businesses that was sold to Norske Skogindustrier ASA on 28 July 2000;

Payment Date means the date that is five days following the implementation of the Capital Notes Arrangement or, if that day is not a Business Day, the next Business Day;

Principal Amount means the nominal amount of a Capital Note;

Prospectus means the prospectus incorporated in this Information Memorandum;

Registrar means Computershare Registry Services Limited;

Rubicon means Rubicon Limited;

Securities Act means the Securities Act 1978;

Separation Transaction means the Building Transaction and the Energy Transaction;

Series means a series of Capital Notes having the same Election Date and expressed to be of the same series;

Series Meeting means a separate meeting of the holders of the Capital Notes of any Series (and any adjournments or postponements thereof) held to consider and, if thought fit, approve the Capital Notes Arrangement by passing an Extraordinary Resolution;

Supplemental Deed means the deed dated 24 January 2001 supplemental to the Trust Deed and made between Fletcher Building and the Trustee under which the New 2006 Fletcher Building Capital Notes will be constituted;

Trust Deed means the amended and restated trust deed dated 24 January 2001 between Fletcher Challenge, FCIL, Fletcher Building and the Trustee for and in respect of the Existing Capital Notes and the New 2006 Fletcher Building Capital Notes (and includes the Supplemental Deed); and

Trustee means the Trustee under the Trust Deed being, at the date of this Information Memorandum, Perpetual Trust Limited (or such other trustee as is appointed from time to time).

Annexures

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- **Annexure A** Independent Report to Noteholders
 - **Annexure B** Conditions of the Existing Capital Notes
 - **Annexure C** Conditions of the New 2006 Fletcher Building Capital Notes and the Novated Capital Notes
 - **Annexure D** Fletcher Challenge Limited – Building Operations Financial Statements
 - **Annexure E** Financial Information about Fletcher Challenge after Separation
New Fletcher Challenge Forests
Condensed Unaudited Pro Forma Financial Statements
 - **Annexure F** Auditor's Report
 - **Annexure G** Trustee's Statement
 - **Annexure H** Form of Application for Initial High Court Orders
 - **Annexure I** Form of Amended Originating Application for Final High Court Orders and its Schedule C
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ANNEXURE A: Independent Report to Noteholders

G R A N T

S A M U E L

LEVEL 12

NATIONAL BANK CENTRE

209 QUEEN STREET

AUCKLAND

P.O. BOX 4306

TELEPHONE: 0-9-912 7777

FAX: 0-9-912 7788

17 January 2001

The Directors
Fletcher Challenge Limited
Private Bag 92114
AUCKLAND

Dear Directors

Proposed Capital Note Arrangement

1 Introduction

Fletcher Challenge Industries Limited ("FCIL"), a wholly owned subsidiary of Fletcher Challenge Limited ("Fletcher Challenge"), is the issuer of eight series of capital notes ("FCIL Capital Notes"). As a consequence of a proposal to dismantle Fletcher Challenge's targeted share structure, the board of directors of Fletcher Challenge ("the Fletcher Challenge Board") has proposed to holders of FCIL Capital Notes ("FCIL Noteholders") a combination of partial transfer and partial redemption ("the Capital Note Arrangement") with respect to each series of FCIL Capital Notes.

Accordingly, Fletcher Challenge has engaged Grant Samuel & Associates Limited ("Grant Samuel") to prepare an independent report to set out whether, in Grant Samuel's opinion, the Capital Note Arrangement is fair to applicable FCIL Noteholders.

This report has been prepared by Grant Samuel for the benefit of FCIL Noteholders to assist them in considering the resolution to approve the Capital Note Arrangement for each series of FCIL Capital Notes. It will accompany a Notice of Meeting and Information Memorandum to be sent to FCIL Noteholders. The sole purpose of the report is as an expression of Grant Samuel's opinion as to the fairness of the Capital Note Arrangement. This report should not be used for any other purpose or by any other party.

2 The Capital Note Arrangement

2.1 FCIL Capital Notes

The FCIL Capital Notes are long term unsecured subordinated notes with fixed coupon interest rates. The eight series of FCIL Capital Notes issued have varying election dates, coupon interest rates and conversion parameters as follows:

GRANT SAMUEL & ASSOCIATES LIMITED

LEVEL 6, 1 COLLINS STREET, MELBOURNE, VIC 3000 TELEPHONE: 61-3-9654 7300 FAX: 61-3-9654 7338

LEVEL 30, 52 MARTIN PLACE, SYDNEY, NSW 2000 TELEPHONE: 61-2-9324 4211 FAX: 61-2-9324 4301

Summary of Terms of FCIL Capital Notes				
Series	Election Date	Coupon (per cent)	Amount Outstanding NZ\$m	Convertible Into ¹
March 2001	15 March 2001	8.00	88.2	to be redeemed for cash on 15 March 2001
October 2001	31 October 2001	12.25	99.9	B, E, F
December 2002	15 December 2002	11.25	78.2	B, E, F
June 2003	15 June 2003	8.05	71.8	B, E, F
November 2003	30 November 2003	10.30	48.5	B, E, F
April 2004	15 April 2004	8.00	110.1	B, E, F
April 2004 (Series II)	15 April 2004	8.00	12.0	B, E
April 2005	30 April 2005	10.00	193.4	B,E
			\$702.1	

For each series of FCIL Capital Notes, interest is payable at six monthly intervals.

FCIL is the subsidiary of Fletcher Challenge which holds the assets of the three Fletcher Challenge divisions in the company's targeted share structure – Fletcher Challenge Forests ("FC Forests"), Fletcher Challenge Energy ("FC Energy") and Fletcher Challenge Building ("FC Building"). The underlying security for the FCIL Capital Notes is the assets and cash flows of all three divisions of Fletcher Challenge.

On the election date, the FCIL Noteholder can elect to renew the FCIL Capital Notes on the new terms specified by FCIL, or choose to convert the holding. If a FCIL Noteholder chooses to convert its holding, then Fletcher Challenge can elect to issue the relevant targeted shares to the FCIL Noteholder at a conversion price equivalent to 98 per cent of the weighted average sale price of shares of that class sold on the New Zealand Stock Exchange on each of the 10 business days following the notification date, or to redeem the FCIL Capital Notes for cash at the face value.

2.2 Proposed Separation of Fletcher Challenge

On 10 October 2000, Fletcher Challenge announced a proposal for the completion of the dismantling of its targeted share structure ("the Proposed Separation"). The Proposed Separation involves:

- the sale of FC Energy assets to Shell Overseas Holdings Limited ("Shell");
- the formation of a new listed company, Rubicon Limited ("Rubicon") which will be owned by the existing shareholders of FC Energy;
- the separation of FC Building into a stand alone company to be named Fletcher Building Limited ("Fletcher Building"); and
- leaving FC Forests remaining as the sole business of FCIL and Fletcher Challenge, with Fletcher Challenge being renamed Fletcher Challenge Forests Limited ("Fletcher Challenge Forests").

In addition, Fletcher Challenge announced and completed a fully underwritten renounceable pro rata rights offer of FC Forests Preference Shares to the existing FC Forests shareholders in order to recapitalise FC Forests.

The outcome of the Proposed Separation process will not be known until after the Special Meeting of all shareholders of Fletcher Challenge, scheduled to be held on 6 March 2001.

¹ B = FC Building Shares
E = FC Energy Shares
F = FC Forests Shares

The March 2001 series of FCIL Capital Notes, which have an election date of 15 March 2001, will be redeemed for cash prior to the Proposed Separation. For all other FCIL Capital Notes series, the impact of the Proposed Separation are summarised as follows:

■ ***Reduced Underlying Security***

After the Proposed Separation FCIL will only have access to the assets and cash flows of FC Forests as the underlying security of the FCIL Capital Notes. FC Energy and FC Building will no longer form part of the Fletcher Challenge group.

■ ***Conversion into Shares***

As FC Building and FC Energy's targeted shares will no longer form part of Fletcher Challenge after the Proposed Separation:

- FCIL Capital Notes of the April 2004 (Series II) and April 2005 series, which are convertible into FC Energy and FC Building shares will no longer have the option to convert into shares. As a consequence, these FCIL Capital Notes will become perpetually renewable at market interest rates at the five yearly election date and never become repayable; and
- FCIL Capital Notes of all other series, which are convertible into FC Energy, FC Building and FC Forests shares will only be convertible into Fletcher Challenge Forests shares.

2.3 Details of the Capital Note Arrangement

In acknowledgment of the adverse impacts of the Proposed Separation on FCIL Noteholders, the Fletcher Challenge Board has endorsed the Capital Note Arrangement.

The Capital Note Arrangement relates to all series of FCIL Capital Notes except the March 2001 series. It involves:

- for holdings of less than \$5,000 FCIL Capital Notes, FCIL will redeem those notes for cash;
- for holdings of \$5,000 or more FCIL Capital Notes, Fletcher Building will assume the obligations of FCIL and Fletcher Challenge in respect of a pro rata 35 per cent of each FCIL Capital Note series. The coupon interest rate for these notes will increase by 0.5 per cent; and
- FCIL will redeem the remaining 65 per cent of each FCIL Capital Note series for cash.

The amount, which FCIL will pay for the redemption of any FCIL Capital Notes, will be at a price calculated at a yield rate of 1.5 per cent margin over the Government Stock Yield Rate for the relevant term. Each FCIL Noteholder will receive a minimum of the face value plus accrued interest for any FCIL Capital Note redeemed by FCIL.

The March 2001 series of FCIL Capital Notes will be redeemed for cash on the current election date of 15 March 2001. This series of FCIL Capital Notes is not affected by the Proposed Separation and therefore the Capital Note Arrangement has no impact. However, as an alternative to redemption, Fletcher Building will offer a new series of capital notes ("the Fletcher Building 2006 Capital Notes") to the holders of the March 2001 series of FCIL Capital Notes.

The Capital Note Arrangement will only be implemented if the Proposed Separation proceeds. Shareholders of the three divisions of Fletcher Challenge will vote on the Proposed Separation on 6 March 2001.

FCIL Noteholders of each series of FCIL Capital Notes (other than the March 2001 series) will vote on the Capital Note Arrangement for that series. The Capital Note Arrangement will become binding on each series of FCIL Capital Notes if 75 per cent of the FCIL Noteholders of that series vote in favour of the proposal.

If the Capital Note Arrangement is not passed for any series of FCIL Capital Notes, the current arrangements continue. The underlying security will be reduced as FC Building and FC Energy will no longer form part of Fletcher Challenge and the shares into which that series can convert will be restricted to Fletcher Challenge Forests only.

3 Methodology

In order to assess whether the Capital Note Arrangement is fair to FCIL Noteholders, Grant Samuel has in the first instance considered the impact of the Proposed Separation on the FCIL Capital Notes in the absence of the Capital Note Arrangement being approved by FCIL Noteholders.

Grant Samuel has then considered the impact of the Capital Note Arrangement being approved by FCIL Noteholders. For holdings of less than \$5,000 there will be a full cash repayment. For all other FCIL Capital Notes there will be a partial transfer of the obligation to Fletcher Building (35 per cent) with the balance (65 per cent) being repaid. Grant Samuel has considered the fairness of the cash redemption price offered (which is the same whether a full or partial redemption occurs) and the impact of transferring the obligations of FCIL and Fletcher Challenge for FCIL Capital Notes to Fletcher Building.

4 Evaluation of Capital Note Arrangement

4.1 Impact on FCIL Noteholders of the Proposed Separation without the Capital Note Arrangement

If the Capital Note Arrangement is not approved by noteholders and the Proposed Separation occurs, the underlying security supporting the FCIL Capital Notes is reduced to the assets of Fletcher Challenge Forests only. As the corresponding coupon interest rates will not increase there is likely to be an increase in the yield at which FCIL Capital Notes trade, as the market is likely to factor in the increased risk associated with the substantially lower level of security. The market value at which FCIL Capital Notes trade is, assuming a stable interest rate environment, likely to reduce.

In addition to this likely loss of market value:

- for FCIL Noteholders of the April 2004 (Series II) or April 2005 FCIL Capital Notes, the option to convert the notes for shares in FC Building and FC Energy will have been removed as these targeted shares will no longer exist. These FCIL Capital Notes will lose their conversion option and become solely deeply subordinated obligations of Fletcher Challenge Forests which will continue into perpetuity with no option of redemption by the noteholder; and
- for FCIL Noteholders of October 2001, December 2002, June 2003, November 2003 and April 2004 FCIL Capital Notes, the option to convert to equal value of shares in each division of Fletcher Challenge is restricted to converting only into shares in Fletcher Challenge Forests.

The liquidity of all FCIL Capital Notes is also likely to be reduced, particularly for the April 2004 (Series II) and April 2005 series.

FCIL does not propose to compensate FCIL Noteholders for the lower level of security or reduced conversion options through an increase in the interest rate paid on the FCIL Capital Notes. In fact, for each series of FCIL Capital Notes that do not accept the Capital Note Arrangement, Fletcher Challenge Forests could, if it so desired, reduce the coupon interest rates of each series on their next election dates.

The consequences of the Proposed Separation on FCIL Noteholders in the absence of the Capital Note Arrangement are unfavourable and would, in Grant Samuel's opinion, lead to a reduction in the market values of each series of FCIL Capital Notes.

4.2 Impact on FCIL Noteholders of the Capital Note Arrangement

4.2.1 Valuation of the Cash Redemption Price

Under the Capital Note Arrangement FCIL will pay cash for any FCIL Capital Notes redeemed, calculated by applying a yield rate of the Government Stock Yield rate for the relevant term plus 1.5 per cent.

The recent trading history of most actively traded series measured as a margin over the equivalent Government Stock yield is summarised in the following table:

FCIL Capital Notes – Trading History Margin (%)				
Series	for year ended 30 June			1 July 2000 to
	1998	1999	2000	15 December 2000
October 2001				
Average	1.45	2.60	2.53	1.80
Maximum	1.58	3.12	2.71	2.12
Minimum	1.34	1.58	2.07	1.48
December 2002				
Average	1.63	2.77	2.44	1.99
Maximum	1.80	3.25	2.56	2.26
Minimum	1.50	1.80	2.26	1.75
November 2003				
Average	1.63	2.73	2.48	2.03
Maximum	1.79	3.26	2.54	2.25
Minimum	1.49	1.79	2.24	1.83
April 2004				
Average	na	3.28	1.96	2.09
Maximum	na	3.73	2.71	2.15
Minimum	na	2.53	1.47	2.04
April 2005				
Average	1.65	2.79	2.75	2.09
Maximum	1.85	3.51	2.76	2.25
Minimum	1.49	1.84	2.75	1.89

Source: Credit Suisse First Boston

The yield tends to demonstrate an inverse relationship to the redemption price, i.e. the lower the yield the higher the redemption price that will be paid to FCIL Noteholders. The majority of trades of FCIL Capital Notes occur at yield margins higher than the 1.5 per cent yield margin, which will be used to calculate the redemption price.

In Grant Samuel's opinion, the cash redemption price offered by FCIL under the Capital Note Arrangement is likely to be greater than the market prices that would prevail in the market:

- (i) if the FCIL Capital Notes become obligations of only Fletcher Challenge Forests; or
- (ii) if the Proposed Separation did not proceed;

and is therefore considered to be fair to the applicable FCIL Noteholders.

4.2.2 Transfer to Fletcher Building

The coupon interest rate payable on those FCIL Capital Notes which are transferred to Fletcher Building will increase by 0.5 per cent. This increase is to reflect the change in the underlying security from the assets of all three Fletcher Challenge divisions to only that of Fletcher Building.

Fletcher Building will be a much smaller entity than Fletcher Challenge in terms of market capitalisation, net asset backing and earnings. Fletcher Building will, based on historical performance of FC Building, have only a modest level of financial gearing. Key ratios are summarised below:

FC Building – Gearing Ratios			
Year ended 30 June	1998	1999	2000
EBITDA/Gross interest plus distribution on FCIL Capital Notes (times)	3.6	3.4	4.2
EBITDA/Net interest plus distribution on FCIL Capital Notes (times)	3.9	3.6	4.5
EBITDA/Net interest (times)	5.9	5.9	7.5
As at 30 June	1998	1999	2000
FCIL Capital Notes attributed to FC Building	197	205	191
Net debt plus FCIL Capital Notes/Total capitalisation (%)	47.2%	47.2%	46.5%
Net debt/Total capitalisation (%)	34.3%	32.4%	33.4%

If the Capital Note Arrangement is approved by holders of all series of relevant FCIL Capital Notes and all holders of March 2001 series elect to convert to Fletcher Building 2006 Capital Notes, Fletcher Building will have approximately \$246 million of capital notes on issue.

Under the targeted share structure of Fletcher Challenge, FC Building was historically attributed one quarter of all FCIL Capital Notes on issue. In September 2000, when the March 2001 series was issued and 100 per cent of that series was attributed to FC Building, FC Building had approximately \$242 million of FCIL Capital Notes attributed to it. Fletcher Building's capital structure following the Proposed Separation and Capital Note Arrangement will not significantly differ from that of FC Building.

There will be a small impact on interest cover ratios for Fletcher Building due to the additional 0.5 per cent interest margin being offered on the novated FCIL Capital Notes and on the Fletcher Building 2006 Capital Notes.

However, while commercially Fletcher Building is subject to the variability of the construction and residential housing market, it:

- has operations in a mature industry with well defined characteristics and established market positions; and
- has robust cash flows from a number of key business units.

Accordingly, Fletcher Building, upon separation from Fletcher Challenge, will be in a relatively sound financial position. Grant Samuel considers that the increase in coupon interest rates being offered under the FCIL Capital Notes which will be novated to Fletcher Building under the Capital Note Arrangement to be fair compensation for the additional risk being assumed by FCIL Noteholders.

5 Summary of Impact of Capital Note Arrangement on FCIL Noteholders

This section summarises the implications on each category of FCIL Noteholder:

5.1 For small holdings of FCIL Capital Notes

Grant Samuel believes the Capital Note Arrangement is fair to FCIL Noteholders with holdings of less than \$5,000.

FCIL will redeem all holdings of FCIL Capital Notes of less than \$5,000 for cash on the redemption yield of the relevant Government Stock Yield plus 1.5 per cent. This price is higher than the level at which notes are currently trading at in the market. Small FCIL Noteholders may elect to reinvest in alternative capital notes or bonds, a range of which is available on the New Zealand market.

5.2 For larger holdings of FCIL Capital Notes

Fletcher Building will assume the obligations of both FCIL and Fletcher Challenge for 35 per cent of holdings greater than \$5,000 of FCIL Capital Notes. Grant Samuel considers that this transfer to Fletcher Building is fair and the increase in coupon interest rate is fair compensation for the increased risk.

FCIL will redeem the remaining 65 per cent of each holding for cash. The price which FCIL will pay to FCIL Noteholders for the redemption of FCIL Capital Notes is likely to be better than the market price that would prevail if the FCIL Capital Notes became obligations of Fletcher Challenge Forests or if the Proposed Separation did not take place and is therefore considered to be fair. The redemption price will in any event not be less than the face value of the FCIL Capital Notes. In addition, there are alternative similar securities in which FCIL Noteholders could choose to reinvest the cash received.

5.3 For holdings of March 2001 series of FCIL Capital Notes

On 15 March 2001, the election date of March 2001 series of FCIL Capital Notes, FCIL will redeem these notes for cash at the face value. To this series of FCIL Noteholders alone, Fletcher Building will offer a new capital note series on similar terms to the existing FCIL Capital Notes.

The Capital Note Arrangement itself does not directly impact holders of March 2001 series of FCIL Capital Notes and therefore, this report does not consider the options available to holders of these notes.

6 Conclusion

The Capital Note Arrangement has been developed to address the significant adverse consequences for FCIL Noteholders if the Proposed Separation of the Fletcher Challenge targeted shares proceeds. In Grant Samuel's opinion, the Capital Note Arrangement, in particular the redemption price offered and the increase in the coupon interest rate for notes transferred to Fletcher Building, are fair to all FCIL Noteholders affected by the Proposed Separation.

7 Assumptions, Limitations and Reliance on Information

This report is addressed to the Directors of Fletcher Challenge and is for the benefit of the FCIL Noteholders. It should not be used for any other purpose other than as an expression of Grant Samuel's opinion as to whether the Capital Note Arrangement is fair.

Grant Samuel's opinion is based on economic, sharemarket, business trading and other conditions and expectations prevailing at the date of this report. These conditions can change significantly over relatively short periods of time. If they did change materially, the opinion could be different in these changed

circumstances. However, Grant Samuel has no obligation or undertaking to advise any person of any change in circumstances which comes to its attention after the date of this report or to review, revise or update its report or opinion.

This report is also based upon financial and other information provided by Fletcher Challenge. Grant Samuel has considered and relied upon this information and its completeness, accuracy and fair presentation. Fletcher Challenge has represented in writing to Grant Samuel that to its knowledge the information provided by it was complete, accurate and not misleading in any material respect. The information provided to Grant Samuel has been evaluated through analysis, enquiry and review for the purposes of forming an opinion as to whether the Capital note Arrangement is fair to the applicable FCIL Capital Noteholders. However, in preparing reports such as this, time is limited and Grant Samuel does not warrant that its enquiries have identified or verified all of the matters that an audit, extensive examination or “due diligence” investigation might disclose. Except as expressly set out in this report, Grant Samuel has not attempted to independently verify the completeness, accuracy or fair presentation of any of the information provided by Fletcher Challenge. In any event, an opinion as to fairness and reasonableness is more in the nature of an overall review rather than a detailed audit or investigation.

Grant Samuel has no reason to believe that any material facts have been withheld and Fletcher Challenge has confirmed in writing that it believes it has provided all relevant information which is, or should have been, known to any Director of Fletcher Challenge and made available to the Directors.

An important part of the information used in forming an opinion of the kind expressed in this report is comprised of the opinions and judgement of management. This type of information was also evaluated through analysis, enquiry and review to the extent practical. However, such information is often not capable of external verification or validation.

Grant Samuel’s opinion should not be construed as a recommendation as to whether or not to vote in favour of the resolutions. Approval or rejection of the Capital Notes Arrangement is a matter for individual shareholders based on their own circumstances including risk profile, liquid preference, investment strategy, portfolio structure and tax position.

Grant Samuel believes that this report will provide sufficient information to enable the FCIL Noteholders to understand the relevant factors and make an informed decision on whether the terms of the Capital Note Arrangement are fair.

8 Qualifications, Declarations and Consents

8.1 Qualifications

Grant Samuel and its related companies provide financial advisory services to corporate and other clients in relation to mergers and acquisitions, capital raisings, corporate restructuring, property and financial matters generally in Australia and New Zealand. One of its activities is the preparation of company and business valuations and the provision of independent advice and expert’s reports in connection with mergers and acquisitions, takeovers and capital reconstructions. Since its inception in 1988, Grant Samuel and its related companies have prepared more than 200 public expert or appraisal reports.

The persons responsible for preparing this report on behalf of Grant Samuel are Michael Lorimer, BCA, CA and Nicola Taplin B.E Chem (Hons), Dip Bus. Each has a significant number of years experience in relevant corporate advisory matters.

8.2 Disclaimers

It is not intended that this report should be used or relied upon for any purpose other than as an expression of Grant Samuel’s opinion as to the fairness of the Capital Note Arrangement. Grant Samuel expressly disclaims any liability to any FCIL Capital Noteholder who relies or purports to

rely on the report for any other purpose and to any other party who relies or purports to rely on the report for any purpose.

This report has been prepared by Grant Samuel with care and diligence and the statements and opinions given by Grant Samuel in this report are given in good faith and in the belief on reasonable grounds that such statements and opinions are correct and not misleading. However, no responsibility is accepted by Grant Samuel or any of its officers or employees for errors or omissions however arising (including as a result of negligence) in the preparation of this report, provided that this shall not absolve Grant Samuel from liability arising from an opinion expressed recklessly or in bad faith.

8.3 Independence

Grant Samuel does not have at the date of this report, and has not had within the previous two years, any shareholding in or other relationship with Fletcher Challenge, FCIL, FC Forests, FC Energy or FC Building that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the Capital Note Arrangement.

Grant Samuel had no part in the formulation of the Capital Note Arrangement or the Proposed Separation. Its only role has been the preparation of this report and separate reports assessing the Proposed Separation for FC Energy, FC Building and FC Forests shareholders.

Grant Samuel will receive a fixed fee for the preparation of this report. This fee is not contingent on the outcome of the Capital Note Arrangement. Grant Samuel will receive no other benefit for the preparation of this report.

Grant Samuel considers itself to be independent in terms of the requirements of the NZSE Listing Rules.

8.4 Declarations

Fletcher Challenge has agreed that to the extent permitted by law, Fletcher Challenge will indemnify Grant Samuel and its employees and officers in respect of any liability suffered or incurred as a result of or arising out of the preparation of the report. This indemnity will not apply in respect of any conduct involving negligence or wilful misconduct. Fletcher Challenge has also agreed to indemnify Grant Samuel and its employees and officers for time spent and reasonable legal costs and expenses incurred in relation to any inquiry or proceeding initiated by any person except where Grant Samuel or its employees and officers are found liable for or guilty of conduct involving negligence or wilful misconduct in which case Grant Samuel shall bear such costs.

Advance drafts of this report were provided to Fletcher Challenge. Certain changes were made to this report as a result of the circulation of the draft report. However, there was no alteration to the methodology, conclusions or recommendations made to FCIL Capital Noteholders as a result of issuing the drafts.

Grant Samuel's terms of reference for its engagement did not contain any term which materially restricted the scope of the report.

8.5 Consents

Grant Samuel consents to the issuing of this report in the form and context in which it is to be included in the Information Memorandum to be sent to FCIL Capital Noteholders. Neither the whole nor any part of this report nor any reference thereto may be included in any other document without the prior written consent of Grant Samuel as to the form and context in which it appears.

Yours faithfully

GRANT SAMUEL & ASSOCIATES LIMITED

Grant Samuel + Associates

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ANNEXURE B: Conditions of the Existing Capital Notes

The following are the Conditions of all the Existing Capital Notes on issue at the date of this Information Memorandum referred to in this section as the Capital Notes. References to the Company are to FCIL.

1. Trust Deed

Noteholders are entitled to the benefit of, are bound by, and are deemed to have notice of, the provisions of the Trust Deed.

2. Status and Subordination of the Capital Notes

- 2.1 **Status:** The Capital Notes constitute unsecured subordinated obligations of the Company and rank pari passu and without priority or preference among themselves.
- 2.2 **Subordination:** The obligations of the Company to the Noteholder under, and the rights of the Noteholder against the Company in respect of, the Capital Notes are subordinated to the claims of Senior Creditors (as defined below) of the Company in that in and upon the Liquidation of the Company the claims of the Noteholder against the Company under and in respect of the Capital Notes in such Liquidation shall be:
- (a) subordinated in point of priority and right of payment to the claims of the Senior Creditors (as defined below); and
 - (b) limited to the "Liquidation Amount" (as defined below).

For this purpose:

"Liquidation Amount" means the amount which is equal to the aggregate Value (as defined below) of the Conversion Shares the Noteholder would have received had the Capital Notes been converted immediately prior to the commencement of the Liquidation of the Company into:

- (a) in the case of the 2004 Series II Capital Notes and 2005 Capital Notes, such numbers (fractions being rounded to the next whole number) of Fletcher Challenge Building Shares and Fletcher Challenge Energy Shares, in a ratio of one Fletcher Challenge Building Share and one Fletcher Challenge Energy Share, as are obtained by dividing the Relevant Amount by the aggregate of the Values of one Fletcher Challenge Building Share and one Fletcher Challenge Energy Share; and
- (b) in the case of all Capital Notes other than the 2004 Series II Capital Notes and the 2005 Capital Notes, such numbers (fractions being rounded to the next whole number) of Fletcher Challenge Building Shares, Fletcher Challenge Energy Shares and Fletcher Challenge Forests Shares, in a ratio of one Fletcher Challenge Building Share, one Fletcher Challenge Energy Share and one Fletcher Challenge Forests Share, as are obtained by dividing the Relevant Amount by the aggregate of the Values of one Fletcher Challenge Building Share, one Fletcher Challenge Energy Share and one Fletcher Challenge Forests Share.

For this purpose:

- (i) **"Relevant Amount"** means, in respect of any Capital Notes on any date, the aggregate of the Principal Amount plus Accrued Interest and Unpaid Interest in respect of the relevant Capital Notes as at that date; and
- (ii) **"Value"** means, in respect of any Conversion Share of a particular class, 98 per cent of the weighted average sale price of Shares of that class (expressed in cents and fractions of cents) sold on the Stock Exchange on each of the 10 business days immediately preceding the date of commencement of the Liquidation of the Company and, if no Shares of that class

have been so sold during such period, the weighted average sale price will be deemed to be the price at which Shares of that class were last sold on the Stock Exchange prior to such period, as determined by the Stock Exchange; and

- (iii) **“Senior Creditors”** means creditors of the Company who (i) in any Liquidation of the Company are creditors whose right to repayment is not subject to any subordination or (ii) are subordinated creditors of the Company, other than those whose claims rank, or are expressed to rank, *pari passu* with, or subordinate to, the claims of the Noteholders.

2.3 Relevant Provisions of Trust Deed: The Trust Deed contains provisions (which, like all other provisions of the Trust Deed, are binding on the Trustee and each Noteholder) restricting the remedies of the Trustee and the Noteholder in respect of the Capital Notes and providing that the Trustee and the Noteholder shall hold on trust various amounts in favour of Senior Creditors. These provisions are set out verbatim at the end of these Conditions.

3. INTEREST

3.1 Interest Rate and Calculation of: Each Capital Note bears interest at the Interest Rate, calculated on its Principal Amount and accruing daily from the date of its purchase by the first Noteholder (the “Issue Date”), provided that, if such Capital Note is purchased on the Issue Date at a discount or premium to its Principal Amount, the interest payable on the First Interest Date shall be calculated by applying the yield to maturity (as notified by the Company to the Purchaser at the time of purchase) to the purchase price. Interest shall cease to accrue on each Capital Note on the date upon which it is converted into Conversion Shares in accordance with these Conditions (the “Conversion Date”) or, in the event of the Liquidation of the Company, on the date (the “Redemption Date”) on which the Capital Note is redeemed by payment of the Liquidation Amount in accordance with Condition 4.2(b).

In these Conditions all interest on the Principal Amount of the Capital Notes which has not become payable in accordance with these Conditions is referred to as “Accrued Interest”.

Any interest paid on the First Interest Date shall be paid to the first Noteholder of the Capital Notes, whether or not on that date the Noteholder of the Capital Notes is some other person. All other interest shall be paid to the Noteholder.

3.2 Interest and Unpaid Interest: Interest on the Principal Amount of the Capital Notes accrued during each Interest Period is payable on the relevant Interest Date. All interest not so paid shall, so long as it remains unpaid, bear interest (“Additional Interest”) at the Interest Rate accruing daily and compounded on each subsequent Interest Date. The Company may, at its option and upon giving not more than 14 days nor less than 7 days notice to Noteholders (which notice may be accompanied by a post dated cheque), pay all or part of such interest and Additional Interest (together “Unpaid Interest”) being, if part only, not less than all of the Unpaid Interest relating to one or more Interest Periods, but so that no Unpaid Interest relating to any Interest Period may be paid before the Unpaid Interest relating to any earlier Interest Period has been paid. All Unpaid Interest and Accrued Interest shall become due and payable in and upon the Liquidation of the Company, but subject to Condition 2.2.

For this purpose:

- (a) **“Final Interest Date”** means the first to occur of the Conversion Date and the Redemption Date;
- (b) **“Interest Period”** means the period from and including one Interest Date (or in the case of the first Interest Period the Issue Date) to, but excluding, the next (or, in the case of the first Interest Period, the First) Interest Date; and
- (c) **“business day”** means a day (other than a Saturday) on which registered banks are open for general banking business in Auckland and Wellington.

Except as provided in this Condition, the Company shall not be obliged to pay interest on any Interest Date but Fletcher Challenge Limited has covenanted in the Trust Deed not to pay any dividend on, or make any other Distribution in respect of, Fletcher Challenge Shares while any such interest remains unpaid. Any non-payment of interest on an Interest Date, other than the Final Interest Date, shall not constitute a default by the Company for any purpose.

3.3 **Payments:** All payments under the Capital Notes may be satisfied by mailing cheques on the relevant Interest Date to the Noteholders (and at their addresses) entered in the Register 14 days prior to such date or by direct credit to any bank account nominated by the Noteholder.

3.4 **Withholding Tax:** All payments or credits to, or to the account of, Noteholders (including payments of, and credits in respect of, interest) will be made net of any tax in respect thereof required by law to be withheld, deducted or paid by the Company except to the extent that the Company is satisfied that the Noteholder is exempt from any such tax or is a person in respect of whom any such withholding, deduction or payment is not required to be made. Any Noteholder claiming any such exemption or to be such a person shall provide the Company with such evidence as the Company may from time to time require to satisfy itself in respect of the validity of that claim.

4. **ELECTION TO RETAIN OR CONVERT**

4.1 **Election Notice:** The Company shall give to each Noteholder not later than three days after the date (the "Election Record Date") which is 33 business days before the Election Date, a notice (an "Election Notice") specifying the new terms (the "New Terms") as to interest rate, interest dates, election date (a "New Election Date", which expression shall also include a new election date specified in an Early Election Notice, as defined below) and otherwise varying the terms to apply to the Capital Notes after the Election Date.

4.2 **Noteholder's Election to Retain or Convert:** The Noteholder shall complete and sign the Election Notice and return it to the Company not later than the date (the "Notification Date") which is 20 business days after the Election Record Date and shall indicate in the Election Notice either or both of:

- (a) the Capital Notes (being Capital Notes having an aggregate Principal Amount of not less than \$5,000 or any greater amount which is a multiple of \$1,000) in respect of which the Noteholder accepts the New Terms with effect from the Election Date; and
- (b) the Capital Notes which the Noteholder wishes to convert into the Conversion Shares on the Election Date.

If, in relation to a Capital Note:

- (i) the Company does not receive an Election Notice from the Noteholder on or before the Notification Date; or
- (ii) to the extent that the Company does so receive an Election Notice but such Election Notice does not indicate whether or not the Noteholder elects to convert all or part of the Capital Notes into the Conversion Shares; or
- (iii) if the Election Notice requires a declaration to be completed by the Noteholder as to the name and domicile of the beneficial owner of the Capital Notes and such declaration is not duly completed,

the Noteholder shall be deemed to have accepted the New Terms in respect of, in the case of (i) and (iii) above, all such Capital Notes and, in the case of (ii) above, such number of such Capital Notes in respect of which no such indication has been given.

4.3 Early Conversion Rights of Noteholders: If, in the opinion of the Company (and whether as a result of a general offer to purchase made to some or all holders of Fletcher Challenge Shares or otherwise), any person, whether alone or acting in concert with any other person:

- (a) is, or is entitled to become, the holder (absolutely or beneficially, and whether directly or indirectly) of 70 per cent or more, in aggregate, of the Fletcher Challenge Shares; or
- (b) has, or will have, the right to cast more than 70 per cent of the votes on a poll at a general meeting of Fletcher Challenge Limited on a matter on which the holders of Conversion Shares are entitled to vote,

the Company shall give notice (an "Early Election Notice") of such fact as soon as practicable after it has formed such opinion to the Noteholders whose names are entered in the Register on the date (the "Early Election Record Date") which is three days prior to the date the Early Election Notice is given. The Early Election Notice shall specify a date (an "Early Notification Date") which must be a business day not later than 10 days after the Early Election Notice is given and shall state that Noteholders may, at their option (but subject to Condition 6.5), by completing, signing and returning the Early Election Notice to the Company not later than the Early Notification Date, elect to convert all or some (as indicated by the Noteholder on the Early Election Notice) of the Capital Notes held by the Noteholder into Conversion Shares on the date (the "Early Election Date") which is 13 business days after the Early Notification Date.

If, in relation to a Capital Note:

- (i) the Company does not receive an Early Election Notice from the Noteholder on or before the Early Notification Date; or
- (ii) to the extent that the Company does so receive an Early Election Notice but such Early Election Notice does not indicate whether or not the Noteholder elects to convert all or part of the Capital Notes; or
- (iii) if the Early Election Notice requires a declaration to be completed by the Noteholder as to the name and domicile of the beneficial owner of the Capital Notes and such declaration is not duly completed,

the Noteholder shall be deemed to have elected not to convert, in the case of (i) and (iii) above, all such Capital Notes and, in the case of (ii) above, such number of such Capital Notes in respect of which no such indication has been given.

4.4 Conversion to Conversion Shares:

- (a) **Basis of Conversion:** Subject to paragraph (b) of this Condition and to Condition 4.5, Fletcher Challenge Limited undertakes to convert any Capital Notes which the Noteholder has (or is deemed to have) elected to convert, less any such Capital Notes which Fletcher Challenge Limited has elected, pursuant to Conditions 4.5, to purchase, by the issue to the Noteholder on the Election Date or the Early Election Date (as the case may be) of:
 - (i) in the case of the 2004 Series II Capital Notes and the 2005 Capital Notes, such numbers (fractions being rounded to the next whole number) of Fletcher Challenge Building Shares and Fletcher Challenge Energy Shares, in a ratio of one Fletcher Challenge Building Share and one Fletcher Challenge Energy Share, as are obtained by dividing the Relevant Amount by the aggregate of the Values of one Fletcher Challenge Building Share and one Fletcher Challenge Energy Share; and
 - (ii) in the case of all Capital Notes other than the 2004 Series II Capital Notes and the 2005 Capital Notes, such numbers (fractions being rounded to the next whole number) of Fletcher Challenge Building Shares, Fletcher Challenge Energy Shares and Fletcher Challenge

Forests Shares, in a ratio of one Fletcher Challenge Building Share, one Fletcher Challenge Energy Share and one Fletcher Challenge Forests Share, as are obtained by dividing the Relevant Amount by the aggregate of the Values of one Fletcher Challenge Building Share, one Fletcher Challenge Energy Share and one Fletcher Challenge Forests Share.

For this purpose:

- (i) **“Relevant Amount”** means, in respect of any Capital Notes, the aggregate as at the Election Date or Early Election Date (as the case may be) of the Principal Amounts of, and Accrued Interest and Unpaid Interest in respect of, such Capital Notes; and
- (ii) **“Value”** means, in respect of any Conversion Share of a particular class, 98 per cent of the weighted average sale price of Shares of that class (expressed in cents and fractions of cents) sold on the Stock Exchange on each of the 10 business days immediately following the Notification Date or Early Notification Date (as the case may be). If no such Shares of that class have been so sold during such period, the weighted average sale price will be deemed to be the price at which Shares of that class were last sold on the Stock Exchange prior to such period, as determined by the Stock Exchange.

Shares of each class of Conversion Share issued pursuant to this Condition shall rank *pari passu* in all respects with the Shares of that class then on issue, except that such Shares will not carry any rights to any dividend or other Distribution declared or paid or made on such Shares by reference to a record date prior to the Election Date or the Early Election Date (as the case may be). If any dividends or other Distributions are declared or paid or made on Shares of any class of Conversion Shares by reference to a record date after the Notification Date or Early Notification Date (as the case may be), but before or on the Election Date or Early Election Date (as the case may be), then, for the purposes of this Condition, the sale price for such Shares on the day of and preceding such record date will be adjusted by the directors of Fletcher Challenge Limited to such extent as they consider reasonable having regard to such dividend or other Distribution. Letters of allotment or certificates (if any) in respect of Conversion Shares so issued shall be posted to the relevant Noteholders on, or as soon as practicable after, the Election Date or the Early Election Date (as the case may be).

- (b) **Alternatives to Conversion:** If, at any time prior to the Election Date, Fletcher Challenge Limited is unable lawfully (other than by reason of its own action or inaction) to issue any class or classes of Conversion Shares to Noteholders in conversion of Capital Notes in accordance with these Conditions or any class or classes of Conversion Shares cease to be eligible to be quoted on the Stock Exchange, the Capital Notes will be unaffected and continue in force on their then terms (including as to Interest Rate) until the Election Date or any earlier Early Election Date, and if on the Election Record Date or any earlier Early Election Record Date Fletcher Challenge Limited is still so unable, or any class or classes of Conversion Shares are still not so eligible to be quoted and the Trustee is not satisfied that such Shares will become eligible to be so quoted within 30 days, the Noteholders' right to elect to convert their Capital Notes into Conversion Shares on the Election Date or Early Election Date (as the case may be) shall be deemed to be suspended and the Election Notice or Early Election Notice (as the case may be) will specify:
 - (i) that the Interest Rate to apply to the Capital Notes from the Election Date or Early Election Date (as the case may be) to the New Election Date will be the “Market Rate” (as defined below) as at the Election Date or Early Election Date (as the case may be); and
 - (ii) a New Election Date (which shall be a business day) to be selected by the Company such that the period from the Election Date or Early Election Date (as the case may be) to the New Election Date shall not exceed five years.

If, between the Election Record Date and the Election Date or between any Early Election Record Date and any Early Election Date, Fletcher Challenge Limited becomes unable lawfully (other than by reason of its own action or inaction) to issue any class or classes of Conversion Shares to Noteholders in conversion of Capital Notes in accordance with these Conditions or any class or classes of Conversion Shares cease to be eligible to be quoted on the Stock Exchange, any election by a Noteholder to convert Capital Notes will be deemed to be void and the Capital Notes will be unaffected and continue in force from the Election Date or Early Election Date (as the case may be) on the terms specified in the Election Notice or Early Election Notice (as the case may be), except that:

- (iii) the rate of interest payable on the Capital Notes from the Election Date or Early Election Date (as the case may be) to the New Election Date will be the Market Rate (as defined below) as at the Election Date or Early Election Date (as the case may be), or such other rate as may be proposed by the Company and agreed to by the Trustee; and
- (iv) the New Election Date (which shall be a business day) to be selected by the Company and notified to the Noteholders, shall be such that the period from the Election Date or Early Election Date (as the case may be) to the New Election Date shall not exceed five years.

For this purpose:

- (a) **“Market Rate”** means the rate per cent per annum which is equal to the aggregate of:
 - (i) the Government Stock Yield Rate (as defined below) as at the Election Date or Early Election Date (as the case may be); and
 - (ii) the margin, expressed as a rate per cent per annum, by which the Interest Rate on the Capital Notes exceeds the Government Stock Yield Rate as at the Interest Determination Date (as defined below); and
- (b) **“Interest Determination Date”** means the later of:
 - (i) the date on which the Capital Note was issued or, if the Capital Note was issued as one or more of a series, the first date on which any of the Capital Notes of such series were issued; and
 - (ii) the last date on which any New Terms applicable to the Capital Note came into effect; and
- (c) **“Government Stock Yield Rate”** means the average of the bid rates for the purchase of New Zealand Government Stock of a term which is the nearest equivalent to:
 - (i) for the purposes of (a)(i) of the definition of Market Rate the period from the Election Date or Early Election Date (as the case may be) to the New Election Date; and
 - (ii) for the purposes of (a)(ii) of the definition of Market Rate the period from the Interest Determination Date to the Election Date,

as quoted to the Company by any three registered banks selected by the Company and approved by the Trustee at or about 11 a.m. on any relevant date or if, in the opinion of the Company, the average of such bid rates does not accurately reflect the then current market yield to maturity (expressed as a rate per cent, per annum) obtainable on such New Zealand Government Stock or on other then available New Zealand Government debt securities or if, at or about that time, for any reason, less than three registered banks are quoting such bid rates, the Government Stock Yield Rate shall be the rate determined by an independent financial expert to be selected by the Trustee after consultation with the Company as being

equal to the then current yield to maturity (expressed as a rate per cent per annum) obtainable on New Zealand Government Stock (or if there is none, other fixed interest securities or other securities considered by such expert to be substantially the equivalent of New Zealand Government Stock) having a term which is the nearest equivalent to the relevant term.

- 4.5 **Option to Purchase:** Notwithstanding any other Condition, Fletcher Challenge Limited shall have the option to purchase for cash on the Election Date or Early Election Date (as the case may be) all or any Capital Notes which, but for this Condition, it would be obliged to convert into Conversion Shares pursuant to Conditions 4.3 or 4.4. The purchase price shall be an amount equal to the aggregate of the Principal Amount of, and the Accrued Interest and Unpaid Interest in respect of, such Capital Notes as at the date of payment of the purchase price. Payment for such Capital Notes shall be made by cheque drawn in favour of, and posted not later than the Election Date or Early Election Date (as the case may be) to the address in the Register of the relevant Noteholder or may be direct credited on such day to any bank account nominated by such Noteholder. Each such payment, when cleared, shall be a complete satisfaction and discharge of any obligation of Fletcher Challenge Limited to the relevant Noteholder to issue Conversion Shares in conversion of the relevant Capital Notes.

If and to the extent that Fletcher Challenge Limited elects to exercise such option it shall give notice of such exercise to the relevant Noteholders not later than three business days prior to the Election Date or Early Election Date (as the case may be) in such manner as Fletcher Challenge Limited determines to be the most practicable in all the circumstances (including by telephone subject to later confirmation in writing), but any omission to give such notice and/or the non receipt of such notice by any Noteholder shall not invalidate or otherwise affect the rights and obligations of Fletcher Challenge Limited to purchase Capital Notes.

- 4.6 **Share Registry:** All Conversion Shares issued upon the conversion of Capital Notes will be entered on the Share Register of Fletcher Challenge Limited in New Zealand.
- 4.7 **Surrender of Certificates on Conversion:** Every Noteholder shall, if and to the extent so required by the Company or Fletcher Challenge Limited, as a condition precedent to the issue of Conversion Shares in conversion of Capital Notes, surrender any Certificate in respect of such Capital Notes in the possession or control of that Noteholder to Fletcher Challenge Limited.

5. TRANSFERS OF CAPITAL NOTES

- 5.1 **Electronic Transfer:** A Capital Note may be transferred in accordance with any system approved under section 7(1) of the Securities Transfer Act 1991. The directors of the Company must register any transfer of Capital Notes presented for registration in accordance with such system and will not be obliged to enquire as to due execution or authorisation of any transfer effected by reason of such system.
- 5.2 **Transfer:** The Capital Notes may be transferred in such minimum Principal Amounts as the Company may from time to time stipulate by, subject to Condition 5.1, an instrument in writing in the usual or common form subject to the following provisions:
- (a) every instrument of transfer must be signed by the transferor and the transferor shall be deemed to remain the owner of each Capital Note concerned until the name of the transferee is entered in the Register;
 - (b) every instrument of transfer must be left duly stamped with all (if any) duty payable on it at the office of the Registrar or at the registered office of the Company for registration accompanied by such evidence as the Directors may require to prove the title of the transferor or his right to transfer each such Capital Note. Upon being satisfied as to the due execution of the transfer and

the due payment of any applicable stamp duty the Directors will, subject to sub-paragraph (d) below, register the transfer and will recognise the transferee as the Noteholder of each Capital Note comprised in the transfer;

- (c) all instruments of transfer which are registered will be retained by the Company but any instrument of transfer which the directors decline to register shall be returned to the person submitting it;
- (d) the Company shall not be obliged to register any transfer of a Capital Note during the period of three business days immediately preceding the Final Interest Date nor during the period between the Election Record Date and the Election Date; and
- (e) no fee shall be charged for the registration of a transfer.

5.3 Transmission by Operation of Law: Any person becoming entitled to any Capital Note by operation of law (including the death or bankruptcy of any Noteholder) may, upon producing such evidence of his entitlement as shall be acceptable to the Company, obtain registration as the Noteholder of such Capital Note or execute a transfer of such Capital Note. This provision includes any case where a person becomes entitled as a survivor of persons registered as joint Noteholder.

5.4 FASTER Transaction Statement: Upon the issue of Further Capital Notes and upon registration of a transfer of a Capital Note pursuant to Conditions 5.1, 5.2 or 5.3 the Company must issue to the transferee a statement recording certain details (including, without limitation, those specified in the Stock Exchange listing rules) of such Capital Note together with a copy of these Conditions. For the avoidance of doubt, any such notice (or copy of these Conditions) does not constitute, comprise or evidence such Capital Note.

5.5 Notices: All notices given by Noteholders pursuant to these Conditions shall be irrevocable.

Subordination Provisions of the Trust Deed

Set out below are the provisions of the Trust Deed relating to subordination of the Capital Notes.

“3.4 No Enforcement by Trustee or Noteholders:

- (a) Neither the Trustee nor any Noteholder shall be entitled to ask, demand, sue or prove for, take or receive, directly or indirectly, whether by exercise of set-off, counterclaim or in any other manner any payment of or in respect of the Capital Notes except after the commencement of the Liquidation of the Company, and then, in the case of a Noteholder, only as may be necessary to preserve the claim thereto of such Noteholder in such Liquidation.
- (b) Notwithstanding paragraph (a) of this Clause, after the commencement of the Liquidation of the Company any amount, other than a payment by the Trustee pursuant to Clause 3.6(c), which a Noteholder may receive on account of the Capital Notes, whether in or upon the Liquidation of the Company or for any other reason whatsoever, shall be paid to the Company to be held by it upon trust to apply the same in or towards the discharge of the indebtedness of the Company to Senior Creditors according to their respective rights and interests and, pending payment thereof to the Company, any such amount received by a Noteholder shall be held by the Noteholder on trust to pay the same to the Company to be held on the trusts aforesaid.
- (c) If, whether before or after the commencement of the Liquidation of the Company and notwithstanding paragraphs (a) and (b) of this Clause, a Noteholder becomes entitled to, or does, exercise any right of set-off, counterclaim or other such remedy in respect of any amount owing by the Noteholder to the Company, the Noteholder will pay to the Company an amount equal to the amount in respect of which such right is exercised, such amount to be held by the Company

upon the trusts specified in paragraph (b) of this Clause and, pending payment thereof to the Company, the Noteholder shall hold such amount on trust to pay the same to the Company to be held on the trusts aforesaid.

- 3.5 **Liquidation of Company:** No Noteholder shall claim or prove in the Liquidation of the Company for any amount owing to such Noteholder under any Capital Note or this Deed to the extent that the Trustee has claimed or proved for, or has determined to claim or prove for, such amount in such Liquidation on behalf of such Noteholder, and any claim or proof made contrary to this Clause shall be withdrawn by such Noteholder.
- 3.6 **Distribution on Liquidation:** Any amount received by the Trustee under or in respect of this Deed or the Capital Notes in or upon any Liquidation of the Company shall be applied, and pending such application shall be held by the Trustee upon trust to be applied:
- (a) **First**, in payment or retention of all costs, charges, expenses and liabilities incurred and payments made by or on behalf of the Trustee and of all remuneration and other moneys payable to the Trustee as provided in this Deed;
 - (b) **Secondly**, in payment to the Company to be held by it upon trust to apply the same in or towards the discharge of the indebtedness of the Company to Senior Creditors according to their respective rights and interests and, pending payment thereof to the Company, any such amount received by the Trustee shall be held by it on trust to pay the same to the Company to be held on the trusts aforesaid;
 - (c) **Thirdly**, subject to the indebtedness of the Company to Senior Creditors having been paid or satisfied or provided for in full (for which purpose the Trustee may rely upon any written advice from the Liquidator of the Company) in or towards payment to the Noteholders, *pari passu* in proportion to the Principal Amounts of the Capital Notes held by the respective Noteholders, of the aggregate Liquidation Amounts in respect of the Capital Notes held by each Noteholder; and
 - (d) **Fourthly**, in payment of the surplus (if any) of such moneys to the Company, or to such other person as may be lawfully entitled thereto.
- 3.7 **Payments to Liquidator of Company:** At any time after the commencement of the Liquidation of the Company, the Trustee and any Noteholder may satisfy its obligations under Clause 3.4 and, in the case of the Trustee, under paragraphs (b) and (c) of Clause 3.6, by paying any amounts referred to in such provisions to the Liquidator of the Company with instructions to the Liquidator to effect such application as is required by such provisions, and any such payment shall be a complete discharge of such obligations.”

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ANNEXURE C: Conditions of the New 2006 Fletcher Building Capital Notes and the Novated Capital Notes

The following are the conditions that will apply to the New 2006 Fletcher Building Capital Notes issued by Fletcher Building. References in this section to the Capital Notes refer to the New 2006 Fletcher Building Capital Notes. References to the Company refer to Fletcher Building.

The Conditions of the Novated Capital Notes will be identical to these Conditions except for the Election Dates, Interest Rates, Interest Payment Dates and interest commencement dates.

1. Trust Deed

Noteholders are entitled to the benefit of, are bound by, and are deemed to have notice of, the provisions of the Trust Deed.

2. Status and Subordination of the Capital Notes

2.1 **Status:** The Capital Notes constitute unsecured subordinated obligations of the Company and rank pari passu and without priority or preference among themselves.

2.2 **Subordination:** The obligations of the Company to the Noteholder under, and the rights of the Noteholder against the Company in respect of, the Capital Notes are subordinated to the claims of Senior Creditors (as defined below) of the Company in that in and upon the Liquidation of the Company the claims of the Noteholder against the Company under and in respect of the Capital Notes in such Liquidation shall be:

- (a) subordinated in point of priority and right of payment to the claims of the Senior Creditors (as defined below); and
- (b) limited to the "Liquidation Amount" (as defined below).

For this purpose:

"Liquidation Amount" means the amount which is equal to the aggregate Value (as defined below) of the Fletcher Building Ordinary Shares the Noteholder would have received had the Capital Notes been converted immediately prior to the commencement of the Liquidation of the Company into such number (fractions being rounded to the next whole number) of Fletcher Building Ordinary Shares as is obtained by dividing the Relevant Amount by the Value of one Fletcher Building Ordinary Share;

For this purpose:

- (i) **"Relevant Amount"** means, in respect of any Capital Notes on any date, the aggregate of the Principal Amount plus Accrued Interest and Unpaid Interest in respect of the relevant Capital Notes as at that date;
- (ii) **"Value"** means, in respect of any Fletcher Building Ordinary Share of, 98 per cent of the weighted average sale price of Fletcher Building Ordinary Shares (expressed in cents and fractions of cents) sold on the Stock Exchange on each of the 10 business days immediately preceding the date of commencement of the Liquidation of the Company and, if no Fletcher Building Ordinary Shares have been so sold during such period, the weighted average sale price will be deemed to be the price at which Fletcher Building Ordinary Shares were last sold on the Stock Exchange prior to such period, as determined by the Stock Exchange; and
- (iii) **"Senior Creditors"** means creditors of the Company who (i) in any Liquidation of the Company are creditors whose right to repayment is not subject to any subordination or (ii) are subordinated creditors of the Company, other than those whose claims rank, or are expressed to rank, pari passu with, or subordinate to, the claims of the Noteholders.

ANNEXURE C: Conditions of the New 2006 Fletcher Building Capital Notes and the Novated Capital Notes *continued*

2.3 **Relevant Provisions of Trust Deed:** The Trust Deed contains provisions (which, like all other provisions of the Trust Deed, are binding on the Trustee and each Noteholder) restricting the remedies of the Trustee and the Noteholder in respect of the Capital Notes and providing that the Trustee and the Noteholder shall hold on trust various amounts in favour of Senior Creditors. These provisions are set out verbatim at the end of these Conditions.

3. INTEREST

3.1 **Interest Rate and Calculation of:** Each Capital Note bears interest at the Interest Rate, calculated on its Principal Amount and accruing daily from 15 March 2001 by the first Noteholder (the "Issue Date"), provided that, if such Capital Note is purchased on the Issue Date at a discount or premium to its Principal Amount, the interest payable on the First Interest Date shall be calculated by applying the yield to maturity (as notified by the Company to the Purchaser at the time of purchase) to the purchase price. Interest shall cease to accrue on each Capital Note on the date upon which it is converted into Fletcher Building Ordinary Shares in accordance with these Conditions (the "Conversion Date") or, in the event of the Liquidation of the Company, on the date (the "Redemption Date") on which the Capital Note is redeemed by payment of the Liquidation Amount in accordance with Condition 2.2(b).

In these Conditions all interest on the Principal Amount of the Capital Notes which has not become payable in accordance with these Conditions is referred to as "Accrued Interest".

Any interest paid on the First Interest Date shall be paid to the first Noteholder of the Capital Notes, whether or not on that date the Noteholder of the Capital Notes is some other person. All other interest shall be paid to the Noteholder.

3.2 **Interest and Unpaid Interest:** Interest on the Principal Amount of the Capital Notes accrued during each Interest Period is payable on the relevant Interest Date. All interest not so paid shall, so long as it remains unpaid, bear interest ("Additional Interest") at the Interest Rate accruing daily and compounded on each subsequent Interest Date. The Company may, at its option and upon giving not more than 14 days' nor less than seven days' notice to Noteholders (which notice may be accompanied by a postdated cheque), pay all or part of such interest and Additional Interest (together "Unpaid Interest") being, if part only, not less than all of the Unpaid Interest relating to one or more Interest Periods, but so that no Unpaid Interest relating to any Interest Period may be paid before the Unpaid Interest relating to any earlier Interest Period has been paid. All Unpaid Interest and Accrued Interest shall become due and payable in and upon the Liquidation of the Company, but subject to Condition 2.2.

For this purpose:

- (a) **"Final Interest Date"** means the first to occur of the Conversion Date and the Redemption Date;
- (b) **"Interest Period"** means the period from and including one Interest Date (or in the case of the first Interest Period the Issue Date) to, but excluding, the next (or, in the case of the first Interest Period, the First) Interest Date; and
- (c) **"business day"** means a day (other than a Saturday) on which registered banks are open for general banking business in Auckland and Wellington.

Except as provided in this Condition, the Company shall not be obliged to pay interest on any Interest Date but the Company has covenanted in the Trust Deed not to pay any dividend on, or make any other Distribution in respect of, Fletcher Building Ordinary Shares while any such interest remains unpaid. Any non-payment of interest on an Interest Date, other than the Final Interest Date, shall not constitute a default by the Company for any purpose.

3.3 **Payments:** All payments under the Capital Notes may be satisfied by mailing cheques on the relevant Interest Date to the Noteholders (and at their addresses) entered in the Register 14 days prior to such date or by direct credit to any bank account nominated by the Noteholder.

3.4 **Withholding Tax:** All payments or credits to, or to the account of, Noteholders (including payments of, and credits in respect of, interest) will be made net of any tax in respect thereof required by law to be withheld, deducted or paid by the Company except to the extent that the Company is satisfied that the Noteholder is exempt from any such tax or is a person in respect of whom any such withholding, deduction or payment is not required to be made. Any Noteholder claiming any such exemption or to be such a person shall provide the Company with such evidence as the Company may from time to time require to satisfy itself in respect of the validity of that claim.

4. **ELECTION TO RETAIN OR CONVERT**

4.1 **Election Notice:** The Company shall give to each Noteholder not later than three days after the date (the "Election Record Date") which is 33 business days before the Election Date, a notice (an "Election Notice") specifying the new terms (the "New Terms") as to interest rate, interest dates, election date (a "New Election Date", which expression shall also include a new election date specified in an Early Election Notice, as defined below) and otherwise varying the terms to apply to the Capital Notes after the Election Date.

4.2 **Noteholder's Election to Retain or Convert:** The Noteholder shall complete and sign the Election Notice and return it to the Company not later than the date (the "Notification Date") which is 20 business days after the Election Record Date and shall indicate in the Election Notice either or both of:

- (a) the Capital Notes (being Capital Notes having an aggregate Principal Amount of not less than \$5,000 or any greater amount which is a multiple of \$1,000) in respect of which the Noteholder accepts the New Terms with effect from the Election Date; and
- (b) the Capital Notes which the Noteholder wishes to convert into Fletcher Building Ordinary Shares on the Election Date.

If, in relation to a Capital Note:

- (i) the Company does not receive an Election Notice from the Noteholder on or before the Notification Date; or
- (ii) to the extent that the Company does so receive an Election Notice but such Election Notice does not indicate whether or not the Noteholder elects to convert all or part of the Capital Notes into Fletcher Building Ordinary Shares; or
- (iii) if the Election Notice requires a declaration to be completed by the Noteholder as to the name and domicile of the beneficial owner of the Capital Notes and such declaration is not duly completed,

the Noteholder shall be deemed to have accepted the New Terms in respect of, in the case of (i) and (iii) above, all such Capital Notes and, in the case of (ii) above, such number of such Capital Notes in respect of which no such indication has been given.

4.3 **Early Conversion Rights of Noteholders:** If, in the opinion of the Company (and whether as a result of a general offer to purchase made to some or all holders of Fletcher Building Ordinary Shares or otherwise), any person, whether alone or acting in concert with any other person:

- (a) is, or is entitled to become, the holder (absolutely or beneficially, and whether directly or indirectly) of 70 per cent or more, in aggregate, of the Fletcher Building Ordinary Shares; or

ANNEXURE C: Conditions of the New 2006 Fletcher Building Capital Notes and the Novated Capital Notes *continued*

- (b) has, or will have, the right to cast more than 70 per cent of the votes on a poll at a general meeting of the Company on a matter on which the holders of Fletcher Building Ordinary Shares are entitled to vote,

the Company shall give notice (an “Early Election Notice”) of such fact as soon as practicable after it has formed such opinion to the Noteholders whose names are entered in the Register on the date (the “Early Election Record Date”) which is three days prior to the date the Early Election Notice is given. The Early Election Notice shall specify a date (an “Early Notification Date”) which must be a business day not later than 10 days after the Early Election Notice is given and shall state that Noteholders may, at their option (but subject to Condition 4.5), by completing, signing and returning the Early Election Notice to the Company not later than the Early Notification Date, elect to convert all or some (as indicated by the Noteholder on the Early Election Notice) of the Capital Notes held by the Noteholder into Fletcher Building Ordinary Shares on the date (the “Early Election Date”) which is 13 business days after the Early Notification Date.

If, in relation to a Capital Note:

- (i) the Company does not receive an Early Election Notice from the Noteholder on or before the Early Notification Date; or
- (ii) to the extent that the Company does so receive an Early Election Notice but such Early Election Notice does not indicate whether or not the Noteholder elects to convert all or part of the Capital Notes; or
- (iii) if the Early Election Notice requires a declaration to be completed by the Noteholder as to the name and domicile of the beneficial owner of the Capital Notes and such declaration is not duly completed,

the Noteholder shall be deemed to have elected not to convert, in the case of (i) and (iii) above, all such Capital Notes and, in the case of (ii) above, such number of such Capital Notes in respect of which no such indication has been given.

4.4 Conversion to Shares:

- (a) **Basis of Conversion:** Subject to paragraph (b) of this Condition and to Condition 4.5, the Company undertakes to convert any Capital Notes which the Noteholder has (or is deemed to have) elected to convert, less any such Capital Notes which the Company has elected, pursuant to Condition 4.5, to redeem or purchase, by the issue to the Noteholder on the Election Date or the Early Election Date (as the case may be) of such number (fractions being rounded to the next whole number) of Fletcher Building Ordinary Shares as is obtained by dividing the Relevant Amount by the Value of one Fletcher Building Ordinary Share.

For this purpose:

- (i) **“Relevant Amount”** means, in respect of any Capital Notes, the aggregate as at the Election Date or Early Election Date (as the case may be) of the Principal Amounts of, and Accrued Interest and Unpaid Interest in respect of, such Capital Notes; and
- (ii) **“Value”** means, in respect of any Fletcher Building Ordinary Share, 98 per cent of the weighted average sale price of Fletcher Building Ordinary Shares (expressed in cents and fractions of cents) sold on the Stock Exchange on each of the 10 business days immediately following the Notification Date or Early Notification Date (as the case may be). If no Fletcher Building Ordinary Shares have been so sold during such period, the weighted average sale price will be deemed to be the price at which Fletcher Building Ordinary Shares were last sold on the Stock Exchange prior to such period, as determined by the Stock Exchange.

Each Fletcher Building Ordinary Share issued pursuant to this Condition shall rank pari passu in all respects with the Fletcher Building Ordinary Shares then on issue, except that such Fletcher Building Ordinary Shares will not carry any rights to any dividend or other Distribution declared or paid or made on such Fletcher Building Ordinary Shares by reference to a record date prior to the Election Date or the Early Election Date (as the case may be). If any dividends or other Distributions are declared or paid or made on Fletcher Building Ordinary Shares by reference to a record date after the Notification Date or Early Notification Date (as the case may be), but before or on the Election Date or Early Election Date (as the case may be), then, for the purposes of this Condition, the sale price for Fletcher Building Ordinary Shares on the day of and preceding such record date will be adjusted by the directors of the Company to such extent as they consider reasonable having regard to such dividend or other Distribution. Letters of allotment or certificates (if any) in respect of Fletcher Building Ordinary Shares so issued shall be posted to the relevant Noteholders on, or as soon as practicable after, the Election Date or the Early Election Date (as the case may be).

- (b) **Alternatives to Conversion:** If, at any time prior to the Election Date, the Company is unable lawfully (other than by reason of its own action or inaction) to issue any Fletcher Building Ordinary Shares to Noteholders in conversion of Capital Notes in accordance with these Conditions or any Fletcher Building Ordinary Shares cease to be eligible to be quoted on the Stock Exchange, the Capital Notes will be unaffected and continue in force on their then terms (including as to Interest Rate) until the Election Date or any earlier Early Election Date, and if on the Election Record Date or any earlier Early Election Record Date the Company is still so unable, or any Fletcher Building Ordinary Shares are still not so eligible to be quoted and the Trustee is not satisfied that such Fletcher Building Ordinary Shares will become eligible to be so quoted within 30 days, the Noteholders' right to elect to convert their Capital Notes into Fletcher Building Ordinary Shares on the Election Date or Early Election Date (as the case may be) shall be deemed to be suspended and the Election Notice or Early Election Notice (as the case may be) will specify:
- (i) that the Interest Rate to apply to the Capital Notes from the Election Date or Early Election Date (as the case may be) to the New Election Date will be the "Market Rate" (as defined below) as at the Election Date or Early Election Date (as the case may be); and
 - (ii) a New Election Date (which shall be a business day) to be selected by the Company such that the period from the Election Date or Early Election Date (as the case may be) to the New Election Date shall not exceed five years.

If, between the Election Record Date and the Election Date or between any Early Election Record Date and any Early Election Date, the Company becomes unable lawfully (other than by reason of its own action or inaction) to issue any Fletcher Building Ordinary Shares to Noteholders in conversion of Capital Notes in accordance with these Conditions or any Fletcher Building Ordinary Shares cease to be eligible to be quoted on the Stock Exchange, any election by a Noteholder to convert Capital Notes will be deemed to be void and the Capital Notes will be unaffected and continue in force from the Election Date or Early Election Date (as the case may be) on the terms specified in the Election Notice or Early Election Notice (as the case may be), except that:

- (iii) the rate of interest payable on the Capital Notes from the Election Date or Early Election Date (as the case may be) to the New Election Date will be the Market Rate (as defined below) as at the Election Date or Early Election Date (as the case may be), or such other rate as may be proposed by the Company and agreed to by the Trustee; and
- (iv) the New Election Date (which shall be a business day) to be selected by the Company and notified to the Noteholders, shall be such that the period from the Election Date or Early Election Date (as the case may be) to the New Election Date shall not exceed five years.

ANNEXURE C: Conditions of the New 2006 Fletcher Building Capital Notes and the Novated Capital Notes *continued*

For this purpose:

- (a) **“Market Rate”** means the rate per cent per annum which is equal to the aggregate of:
 - (i) the Government Stock Yield Rate (as defined below) as at the Election Date or Early Election Date (as the case may be); and
 - (ii) the margin, expressed as a rate per cent per annum, by which the Interest Rate on the Capital Notes exceeds the Government Stock Yield Rate as at the Interest Determination Date (as defined below); and
- (b) **“Interest Determination Date”** means the later of:
 - (i) the date on which the Capital Note was issued or, if the Capital Note was issued as one or more of a series, the first date on which any of the Capital Notes of such series were issued; and
 - (ii) the last date on which any New Terms applicable to the Capital Note came into effect; and
- (c) **“Government Stock Yield Rate”** means the average of the bid rates for the purchase of New Zealand Government Stock of a term which is the nearest equivalent to:
 - (i) for the purposes of (a)(i) of the definition of Market Rate the period from the Election Date or Early Election Date (as the case may be) to the New Election Date; and
 - (ii) for the purposes of (a)(ii) of the definition of Market Rate the period from the Interest Determination Date to the Election Date,

as quoted to the Company by any three registered banks selected by the Company and approved by the Trustee at or about 11 a.m. on any relevant date or if, in the opinion of the Company, the average of such bid rates does not accurately reflect the then current market yield to maturity (expressed as a rate per cent, per annum) obtainable on such New Zealand Government Stock or on other then available New Zealand Government debt securities or if, at or about that time, for any reason, less than three registered banks are quoting such bid rates, the Government Stock Yield Rate shall be the rate determined by an independent financial expert to be selected by the Trustee after consultation with the Company as being equal to the then current yield to maturity (expressed as a rate per cent per annum) obtainable on New Zealand Government Stock (or if there is none, other fixed interest securities or other securities considered by such expert to be substantially the equivalent of New Zealand Government Stock) having a term which is the nearest equivalent to the relevant term.

- 4.5 **Option to Purchase or Redeem:** Notwithstanding any other Condition, the Company (or its nominee) shall have the option to purchase or redeem for cash on the Election Date or Early Election Date (as the case may be) all or any Capital Notes which, but for this Condition, it would be obliged to convert into Fletcher Building Ordinary Shares pursuant to Conditions 4.3 or 4.4. The purchase or redemption price shall be an amount equal to the aggregate of the Principal Amount of, and the Accrued Interest and Unpaid Interest in respect of, such Capital Notes as at the date of payment of the purchase price. Payment for such Capital Notes shall be made by cheque drawn in favour of, and posted not later than the Election Date or Early Election Date (as the case may be) to the address in the Register of the relevant Noteholder or may be direct credited on such day to any bank account nominated by such Noteholder. Each such payment, when cleared, shall be a complete satisfaction and discharge of any obligation of the Company to the relevant Noteholder to issue Fletcher Building Ordinary Shares in conversion of the relevant Capital Notes.

If and to the extent that the Company (or its nominee) elects to exercise such option it shall give notice of such exercise to the relevant Noteholders not later than three business days prior to the Election Date or Early Election Date (as the case may be) in such manner as the Company (or its nominee) determines to be the most practicable in all the circumstances (including by telephone subject to later confirmation in writing), but any omission to give such notice and/or the non receipt of such notice by any Noteholder shall not invalidate or otherwise affect the rights and obligations of the Company (or its nominee) to purchase or redeem Capital Notes.

4.6 **Share Registry:** All Shares issued upon the conversion of Capital Notes will be entered on the Share Register of the Company in New Zealand.

4.7 **Surrender of Certificates on Conversion:** Every Noteholder shall, if and to the extent so required by the Company, as a condition precedent to the issue of Shares in conversion of Capital Notes, surrender any Certificate in respect of such Capital Notes in the possession or control of that Noteholder to the Company.

5. TRANSFERS OF CAPITAL NOTES

5.1 **Electronic Transfer:** A Capital Note may be transferred in accordance with any system approved under section 7(1) of the Securities Transfer Act 1991. The directors of the Company must register any transfer of Capital Notes presented for registration in accordance with such system and will not be obliged to enquire as to due execution or authorisation of any transfer effected by reason of such system.

5.2 **Transfer:** The Capital Notes may be transferred in such minimum Principal Amounts as the Company may from time to time stipulate by, subject to Condition 5.1, an instrument in writing in the usual or common form subject to the following provisions:

- (a) every instrument of transfer must be signed by the transferor and the transferor shall be deemed to remain the owner of each Capital Note concerned until the name of the transferee is entered in the Register;
- (b) every instrument of transfer must be left duly stamped with all (if any) duty payable on it at the office of the Registrar or at the registered office of the Company for registration accompanied by such evidence as the Directors may require to prove the title of the transferor or his right to transfer each such Capital Note. Upon being satisfied as to the due execution of the transfer and the due payment of any applicable stamp duty the Directors will, subject to sub-paragraph (d) below, register the transfer and will recognise the transferee as the Noteholder of each Capital Note comprised in the transfer;
- (c) all instruments of transfer which are registered will be retained by the Company but any instrument of transfer which the directors decline to register shall be returned to the person submitting it;
- (d) the Company shall not be obliged to register any transfer of a Capital Note during the period of three business days immediately preceding the Final Interest Date nor during the period between the Election Record Date and the Election Date; and
- (e) no fee shall be charged for the registration of a transfer.

5.3 **Transmission by Operation of Law:** Any person becoming entitled to any Capital Note by operation of law (including the death or bankruptcy of any Noteholder) may, upon producing such evidence of his entitlement as shall be acceptable to the Company, obtain registration as the Noteholder of such Capital Note or execute a transfer of such Capital Note. This provision includes any case where a person becomes entitled as a survivor of persons registered as joint Noteholder.

ANNEXURE C: Conditions of the New 2006 Fletcher Building Capital Notes and the Novated Capital Notes *continued*

5.4 **FASTER Transaction Statement:** Upon the issue of Further Capital Notes and upon registration of a transfer of a Capital Note pursuant to Conditions 5.1, 5.2 or 5.3 the Company must issue to the transferee a statement recording certain details (including, without limitation, those specified in the Stock Exchange listing rules) of such Capital Note together with a copy of these Conditions. For the avoidance of doubt, any such notice (or copy of these Conditions) does not constitute, comprise or evidence such Capital Note.

5.5 **Notices:** All notices given by Noteholders pursuant to these Conditions shall be irrevocable.

Subordination Provisions of the Trust Deed

Set out below are the provisions of the Trust Deed relating to subordination of the Capital Notes.

“3.4 No Enforcement by Trustee or Noteholders:

- (a) Neither the Trustee nor any Noteholder shall be entitled to ask, demand, sue or prove for, take or receive, directly or indirectly, whether by exercise of set-off, counterclaim or in any other manner any payment of or in respect of the Capital Notes except after the commencement of the Liquidation of the Company, and then, in the case of a Noteholder, only as may be necessary to preserve the claim thereto of such Noteholder in such Liquidation.
- (b) Notwithstanding paragraph (a) of this Clause, after the commencement of the Liquidation of the Company any amount, other than a payment by the Trustee pursuant to Clause 3.6(c), which a Noteholder may receive on account of the Capital Notes, whether in or upon the Liquidation of the Company or for any other reason whatsoever, shall be paid to the Company to be held by it upon trust to apply the same in or towards the discharge of the indebtedness of the Company to Senior Creditors according to their respective rights and interests and, pending payment thereof to the Company, any such amount received by a Noteholder shall be held by the Noteholder on trust to pay the same to the Company to be held on the trusts aforesaid.
- (c) If, whether before or after the commencement of the Liquidation of the Company and notwithstanding paragraphs (a) and (b) of this Clause, a Noteholder becomes entitled to, or does, exercise any right of set-off, counterclaim or other such remedy in respect of any amount owing by the Noteholder to the Company, the Noteholder will pay to the Company an amount equal to the amount in respect of which such right is exercised, such amount to be held by the Company upon the trusts specified in paragraph (b) of this Clause and, pending payment thereof to the Company, the Noteholder shall hold such amount on trust to pay the same to the Company to be held on the trusts aforesaid.

3.5 **Liquidation of Company:** No Noteholder shall claim or prove in the Liquidation of the Company for any amount owing to such Noteholder under any Capital Note or this Deed to the extent that the Trustee has claimed or proved for, or has determined to claim or prove for, such amount in such Liquidation on behalf of such Noteholder, and any claim or proof made contrary to this Clause shall be withdrawn by such Noteholder.

3.6 **Distribution on Liquidation:** Any amount received by the Trustee under or in respect of this Deed or the Capital Notes in or upon any Liquidation of the Company shall be applied, and pending such application shall be held by the Trustee upon trust to be applied:

- (a) **First**, in payment or retention of all costs, charges, expenses and liabilities incurred and payments made by or on behalf of the Trustee and of all remuneration and other moneys payable to the Trustee as provided in this Deed;
- (b) **Secondly**, in payment to the Company to be held by it upon trust to apply the same in or towards the discharge of the indebtedness of the Company to Senior Creditors according to their

respective rights and interests and, pending payment thereof to the Company, any such amount received by the Trustee shall be held by it on trust to pay the same to the Company to be held on the trusts aforesaid;

- (c) **Thirdly**, subject to the indebtedness of the Company to Senior Creditors having been paid or satisfied or provided for in full (for which purpose the Trustee may rely upon any written advice from the Liquidator of the Company) in or towards payment to the Noteholders, *pari passu* in proportion to the Principal Amounts of the Capital Notes held by the respective Noteholders, of the aggregate Liquidation Amounts in respect of the Capital Notes held by each Noteholder; and
- (d) **Fourthly**, in payment of the surplus (if any) of such moneys to the Company, or to such other person as may be lawfully entitled thereto.

3.7 **Payments to Liquidator of Company:** At any time after the commencement of the Liquidation of the Company, the Trustee and any Noteholder may satisfy its obligations under Clause 3.4 and, in the case of the Trustee, under paragraphs (b) and (c) of Clause 3.6, by paying any amounts referred to in such provisions to the Liquidator of the Company with instructions to the Liquidator to effect such application as is required by such provisions, and any such payment shall be a complete discharge of such obligations.”

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ANNEXURE D: Fletcher Challenge Limited – Building Operations Financial Statements

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Statement of Accounting Policies

Basis of Presentation

The Financial Statements presented are those of the Building operations of the Fletcher Challenge Group which is not defined by legal ownership. The Financial Statements have been derived from the Fletcher Challenge Limited consolidated Financial Statements presented to shareholders. These Financial Statements have been prepared on a stand alone carve out basis.

The Financial Statements include the assets, liabilities, income and expenses relating to the Fletcher Challenge Group's interest in building products, concrete, steel, construction, housing and distribution, and other corporate assets, liabilities, income and expenses of the Fletcher Challenge Group. The corporate income and expenses include, but are not limited to, officer and employee salaries, rent, depreciation, accounting and legal services, general and administrative expenses and other such expenses. These corporate assets, liabilities, income and expenses have been allocated as described below to Fletcher Challenge Limited – Building Operations on bases the Directors believe are reasonable. The financial position, results of operations and cash flows of Fletcher Challenge Limited – Building Operations may, however, differ from the results which may have been achieved had Fletcher Challenge Limited – Building Operations operated as an independent legal entity. Additionally, future expenses incurred as an independent entity may not be comparable to the historical levels.

The Fletcher Challenge Group's investment in Fletcher Challenge Limited – Building Operations ("Fletcher Challenge Net Investment") is shown in lieu of Shareholders' Equity.

Debt and derivative financial instruments are managed by the Fletcher Challenge Group on a centralised basis. This includes the investment of surplus cash, the issuance, repayment and repurchase of short and long-term debt, including derivative financial instruments and the issuance of other securities. Accordingly, debt and derivative financial instruments managed in this manner, which are not specifically identifiable with the operations of a particular business, were initially allocated to Fletcher Challenge Limited – Building Operations based on the business characteristics and projected funding requirements of Fletcher Challenge Limited – Building Operations, and the debt to total capitalisation ratio of comparable industry participants. The amount of debt (classified as Corporate Borrowings) and derivative financial instruments allocated is increased or decreased each period for the net cash inflows or outflows of Fletcher Challenge Limited – Building Operations and movements in foreign exchange rates. Funding costs on allocated debt and derivative financial instruments are determined by applying the weighted

average rates incurred by the Fletcher Challenge Group.

With respect to tax obligations the Fletcher Challenge Group operates on a consolidated basis within each tax jurisdiction to ensure that all benefits and obligations are netted off before any external obligations to tax authorities are met.

The Fletcher Challenge Group provisions for current and deferred taxation and the Fletcher Challenge Group taxation expense are allocated to Fletcher Challenge Limited – Building Operations based primarily upon the taxable income of Fletcher Challenge Limited – Building Operations after charging allocated corporate, general and administrative costs and funding costs and other amounts directly related to Fletcher Challenge Limited – Building Operations. Fletcher Challenge Group provisions for current and deferred taxation and Fletcher Challenge Group taxation expenses that are not so directly related are allocated to Fletcher Challenge Limited – Building Operations on a basis, supported by funds usage of Fletcher Challenge Limited – Building Operations, that the Directors believe is reasonable.

Other Corporate assets and liabilities include the Fletcher Challenge Group Pension Plans which have beneficiaries employed across the Fletcher Challenge Group and are allocated, together with related revenues and costs, to Fletcher Challenge Limited – Building Operations on the basis of the beneficiaries employed within the Building operations.

Corporate expenses are allocated to Fletcher Challenge Limited – Building Operations on the basis of the utilisation of Corporate resources by Fletcher Challenge Limited – Building Operations.

Accounting Convention

The Financial Statements are based on the general principles of historical cost accounting with the exception of investments as noted below. These Financial Statements have been prepared in accordance with generally accepted accounting principles in the United States (US GAAP) where this does not conflict with New Zealand law. These policies have been applied on a consistent basis except as disclosed in Note 2, Accounting Changes.

Estimates

The preparation of Financial Statements in conformity with generally accepted accounting practice requires Management 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

ANNEXURE D: Fletcher Challenge Limited – Building Operations Financial Statements *continued*

Statement of Accounting Policies *continued*

Basis of Combination

Fletcher Challenge Limited – Building Operations is not defined by legal ownership. Therefore the Financial Statements do not necessarily reflect the assets, liabilities and results of a holding company and subsidiaries but rather the combination of assets, liabilities, income, expenses and cash flows of the Building operations of Fletcher Challenge Limited.

Statement of Financial Position

The Statement of Financial Position is a combination of the assets and liabilities of Fletcher Challenge Limited – Building Operations.

Investments Accounted for under the Treasury Stock Method

The Treasury Stock method of accounting is adopted where the Fletcher Building operations hold shares in Fletcher Challenge Limited. The cost, being purchase price, of Fletcher Challenge Building Shares is deducted from Fletcher Challenge Net Investment within Ownership Interests.

Statement of Financial Performance

The Statement of Financial Performance includes the income and expenses and the equity share of associated entities' earnings of Fletcher Challenge Limited – Building Operations, but excludes unrealised earnings on transactions within the Building operations. Funding costs related to assets under development for Fletcher Challenge Limited – Building Operations' use are capitalised as part of the cost of those assets with such funding costs calculated on an avoidable cost basis.

Goodwill on Acquisition

Fair values are assigned to the assets and liabilities of subsidiaries and associates of Fletcher Challenge Limited – Building Operations at the date they are acquired. After assigning fair values to the assets and liabilities of subsidiaries and associates acquired, goodwill may arise when comparing the purchase cost to the fair value assigned. Goodwill arises to the extent that the fair value is determined to be less than the purchase cost and this goodwill is amortised to Earnings on a systematic basis over the period it is believed benefits will arise. The period of amortisation will generally be five years or less; however, in individual cases it may be up to 20 years. The period of amortisation of any goodwill is regularly reviewed and, if it is believed that the amount remaining to be amortised will not be recovered by future benefits to be realised, the unrecoverable amount is written off to Earnings and the balance amortised over the period it is believed benefits will be realised. Negative goodwill on acquisition arises to the extent the fair value is determined to exceed the purchase cost and this surplus is

applied to reduce the book value of non-monetary assets acquired and, to the extent there are insufficient non-monetary assets, taken to Earnings.

Joint Ventures

Where ownership interest in the Joint Venture is in the net residue and does not give rise to an economic or controlling interest in excess of 50 per cent, the share of the net assets and liabilities and earnings of the attributed investment is included on an equity basis. If the interest does give rise to a controlling interest in excess of 50 per cent, the investment is consolidated.

Currency Translation

Statements of Financial Position in foreign currencies are translated into New Zealand currency at the rates of exchange ruling at balance date. Statements of Financial Performance in foreign currencies are translated using an average exchange rate reflecting an approximation of the appropriate transaction rates. Exchange variations arising from translation are held in the Currency Translation Reserve, a component of Fletcher Challenge Net Investment.

Functional Currency

Each significant business unit, wherever domiciled, is evaluated by reference to the currency of its cash flow, sales prices, sales market, expenses and finance to determine its dominant functional currency. Where the functional currency differs from the domestic currency, the non-monetary assets are recorded in the functional currency rather than the currency of domicile and translated to New Zealand dollars in accordance with the currency translation policy.

Valuation of Assets

Foreign Currency Assets

Foreign currency monetary items are recorded at the rates of exchange ruling at balance date. Foreign currency non-monetary assets are translated at the exchange rates in effect when the amounts of these assets were determined. If a foreign currency liability is designated as a hedge, the assets are translated at the closing rate and the exchange difference taken to the Currency Translation Reserve.

Land, Buildings, Plant, Motor Vehicles & Office Equipment

Land, Buildings, Plant, Motor Vehicles and Office Equipment are valued at cost less accumulated depreciation.

Associate Entities

The equity method has been used for associated entities in which Fletcher Challenge Limited – Building Operations has a significant but not controlling interest.

Investments

Investments in equity securities, not consolidated or equity accounted, which have a readily determinable fair value are

Statement of Accounting Policies *continued*

classified as either trading securities or available-for-sale securities. Investments classified as trading securities are valued at fair (market) value, with unrealised gains and losses included in Earnings. Investments classified as available-for-sale securities are valued at fair value, with unrealised gains or losses excluded from Earnings and reported as a separate component of Ownership Interests. Upon disposal of available-for-sale securities any gains or losses measured with reference to historical cost are included in Earnings.

Other Investments which do not have a readily determinable fair value are valued at historical cost. Permanent impairments of other investments are written off to Earnings as they arise.

Stocks

Trading stock, raw materials and work in progress are valued at the lower of cost, net realisable value or replacement price, determined principally on the first-in-first-out basis. Cost includes direct manufacturing costs and manufacturing overheads at normal operating levels.

Construction Contracts

Earnings on construction contracts (including sub-contracts) are determined using the percentage-of-completion method. Earnings are not recognised until the outcome can be reliably estimated. Provision is made for estimated future losses on the entire contract from the date it is first recognised that a contract loss may be incurred.

Debtors

Debtors are valued at estimated net realisable value. The valuation is net of a provision maintained for doubtful debts, the ultimate collection of which is doubtful, provision for which is made from Earnings.

All known losses are written off to Earnings in the period in which it becomes apparent that the debts are not collectable.

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.

Permanent Impairment

Permanent Impairment is deemed to occur when the recoverable amount falls below the book value of the asset. The recoverable amount is determined to be the sum of expected future discounted net cash flows arising from the ownership of the asset. Future net cash flows take into account remaining useful life, and the expected period of continued ownership, including any intended disposals, and any costs or proceeds expected to eventuate at the end of the remaining useful life or end of the expected period of continued ownership.

For the purposes of considering whether there has been a Permanent Impairment, assets are grouped at the lowest level for which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets.

When an impairment loss arises the impairment is measured as the amount by which the book value exceeds the fair value of the asset.

Valuation of Liabilities

Foreign Currency Liabilities

Foreign currency liabilities are recorded at the rates of exchange ruling at balance date. Losses or gains are written off to Earnings, except where identified as an effective hedge offsetting exchange variations arising on translation of non-monetary items.

Foreign currency liabilities subject to a forward exchange hedge contract are recorded at the contract rate. The costs of forward exchange hedge contracts are amortised to Earnings over the life of the contract. Unamortised costs are held against the related liability.

Derivative Financial Instruments

Derivative financial instruments including foreign exchange contracts, interest rate swaps, currency swaps, options, and forward rate agreements and electricity price swaps are utilised to reduce exposure to market risks and are therefore designated as hedges.

Fletcher Challenge Group policy specifically prohibits the holding or issuing of derivative financial instruments for trading or speculative purposes. All derivative financial instruments are held to hedge risk on underlying assets, liabilities and sales and purchases. 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.

Instruments are held 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, then early termination occurs. For early termination of foreign exchange contracts, options and forward rate agreements, opposite transactions are entered into and accounted for as specified for that particular instrument. For currency and interest rate swaps, the gain or loss is recognised immediately if the underlying risk has been extinguished or amortised over the remaining life of the underlying risk being managed.

Foreign exchange contracts are accounted for at the net contract amount, which is translated at the spot rate at balance date, with any gains or losses transferred to the

Statement of Accounting Policies *continued*

Currency Translation Reserve. Premiums or discounts incurred are amortised over the life of the contract and at balance date the unamortised amount is recognised in the Statement of Financial Position.

The payments on currency and interest rate swap agreements are recognised on an accrual basis as an adjustment to interest expense over the life of the swap. On currency swaps the net notional principal amount translated at the spot rate is included in the Statement of Financial Position. There is no principal exchange associated with interest rate swaps.

The net interest income or expense after settlement of forward rate agreements is amortised from settlement date to maturity date. There is no principal exchange associated with forward rate agreements.

Premiums paid or received on option contracts are amortised from contract to exercise dates. If the option is exercised it is then accounted for as the resulting derivative financial instrument.

The income or expense on electricity price swaps is recognised on an accrual basis as an adjustment to the underlying operating expense over the life of the contract. The income or expense on each settlement date is calculated as the difference between the contracted price of electricity and the prevailing market price, for the contracted volume of electricity.

Derivative financial instruments are reported in the Statement of Financial Performance, Statement of Financial Position and Statement of Cash Flows on a basis consistent with the underlying hedged item.

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

Taxation

With respect to tax obligations the Fletcher Challenge Group operates on a consolidated basis within a tax jurisdiction to ensure that all benefits and obligations are netted off before any external obligations to tax authorities are met.

The provision for current tax is the amount due for payment to taxation authorities in the next twelve months.

The provision for deferred tax is the liability for taxation that has been deferred because of timing differences less taxation benefits which will offset the deferred liability as it arises. The provision for deferred taxation has been calculated by applying the liability method.

The future tax benefit of past and current tax losses, to the extent they exceed related deferred taxation liabilities, is not recognised unless recovery is considered certain and is expected to be made by the Fletcher Challenge Group within two years.

When the Fletcher Challenge Group has made full use of all its tax benefits in a tax jurisdiction, the cumulative tax provisions will be paid or received by each of the relevant companies as a cash transaction at that time.

The provision for deferred taxation comprises amounts payable to other Fletcher Challenge Group companies in respect of past loss offsets, the liability for taxation that has been deferred because of timing differences arising within Fletcher Challenge Limited – Building Operations, less allocated Corporate taxation benefits which will offset the deferred liability as it emerges.

The Corporate taxation benefits were initially allocated based on the projected assessable income of Fletcher Challenge Limited – Building Operations. The amount of allocated Corporate taxation benefit is increased or decreased each period by the allocated taxation expense, which is based primarily upon the allocated corporate, general, administrative and funding costs and taxation benefits generated from the Fletcher Challenge Group's borrowing structure.

Withholding taxes payable on repatriation are not provided on earnings of foreign subsidiaries except where it is planned to repatriate those earnings.

Finance Leases

Finance leases are capitalised to reflect the term borrowing incurred and the cost of the asset acquired. Such obligations are classified within Term Debt.

The finance cost portion of lease payments is written off to Earnings. The leased asset is depreciated on a straight line basis over the estimated useful life of the asset with regard to residual values.

Statement of Accounting Policies *continued*

Income Determination

Revenue Recognition

Operating Revenue is recognised in accordance with the terms of sale when the benefits of ownership and risk of loss passes to the customer.

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 in respect of the period prior to balance date.

Currency Gains and Losses

All currency gains and losses on monetary items are taken to Earnings as they accrue except to the extent that they hedge an exchange variation on translation of non-monetary items. Where a monetary item is designated as an effective hedge of net foreign investment, the gain or loss is offset against the exchange variation on translation of the investment and recorded in the Currency Translation Reserve.

Depreciation

Depreciation of fixed assets is calculated on the straight line method. Expected useful lives, which are regularly reviewed, are (on a weighted average basis across Fletcher Challenge Limited – Building Operations):

Buildings	30 years
Plant and Equipment	13 years
Office Equipment	5 years
Motor Vehicles	5 years

Leasing Commitments

Expenditure arising from operating leasing commitments is written off to Earnings in the period incurred. Purchased head leases are valued at cost and amortised over the unexpired period of the lease.

Pension Plan Expense

The actuarial cost of providing pension plan benefits in respect of services provided by pension plan members to the Fletcher Challenge Group is expensed as it accrues over the service life of the employees, taking account of the income earned by the income generating assets owned by the various plans. Any over or under accrual of expenses or income from previous periods is amortised to Earnings over a maximum period of the remaining average service life of plan members employed by the Fletcher Challenge Group.

Fletcher Challenge Limited – Building Operations' pension plan expense includes an amount of the Fletcher Challenge Group pension plan expense allocated to Fletcher Challenge Limited – Building Operations on the basis of beneficiaries

employed in the Building operations which the Directors believe is reasonable.

Stock Based Compensation

The Fletcher Challenge Group operates various share option schemes for director and employee remuneration. Stock based compensation cost on an option is accounted for using the fair value based method, as presented by SFAS 123 "Accounting for Stock-Based Compensation", and is recognised in Earnings over the period from grant date to earliest exercise date. The effect of forfeitures are recognised as they occur. Fletcher Challenge Limited – Building Operations' compensation cost is the amount of the Fletcher Challenge Group compensation cost allocated to Fletcher Challenge Limited – Building Operations to the extent the cost relates to options over Building Division Shares of Fletcher Challenge Limited.

Taxation

The taxation expense is the estimated liability in respect of current earnings after allowance for permanent differences, including allocated permanent differences, between reported earnings and assessable earnings.

**ANNEXURE D: Fletcher Challenge Limited –
Building Operations Financial Statements** *continued*

Statement of Financial Performance

for year ended 30 June

	Note	2000 NZ\$m	1999 NZ\$m	1998 NZ\$m
Operating Revenue	3	2,380	2,665	3,015
Operating Expenses		-2,253	-2,593	-2,838
Operating Earnings	4	127	72	177
Funding Costs	6	-34	-35	-44
Earnings before Taxation		93	37	133
Taxation	7	-31	-16	1
Earnings after Taxation		62	21	134
Equity Earnings	8		-1	-2
Earnings after Equity Earnings		62	20	132
Minority Interest		1	3	2
Net Earnings		63	23	134

The unaudited pro forma basic and diluted net earnings per share for the year ended 30 June 2000 is NZ 14.4 cents per share and NZ 14.1 cents per share, respectively. The number of shares used in the computation was 331 million shares and 340 million shares, respectively, and was based upon the weighted average number of Fletcher Challenge Building shares on issue during the year ended 30 June 2000 (refer note 9).

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

Statement of Movements in Ownership Interests

for year ended 30 June

	2000 NZ\$m	1999 NZ\$m	1998 NZ\$m
Total Ownership Interests at the beginning of the year	960	1,027	888
Net Earnings	63	23	134
Revaluation of Investments	-3	-1	1
Reversal of Revaluation Reserve upon Disposal of Investment			-5
Movement in Currency Translation Reserve	9	-23	40
Total Recognised Revenues and Expenses for the year	69	-1	170
Net Distribution of Net Investment to Fletcher Challenge Limited	-48	-43	-60
Movement in Minority Equity	-9	-23	29
Total Ownership Interests	972	960	1,027

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

**ANNEXURE D: Fletcher Challenge Limited –
Building Operations Financial Statements** *continued*

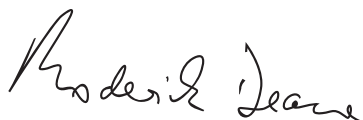
Statement of Financial Position

as at 30 June

	Note	2000 NZ\$m	1999 NZ\$m
Assets			
Current Assets:			
Cash and Liquid Deposits	12	59	76
Stocks	13	368	357
Debtors	14	351	304
Contracts	15	36	94
Total Current Assets		814	831
Term Assets:			
Fixed Assets	16	712	718
Investments	17	86	86
Total Assets		1,612	1,635
Liabilities and Ownership Interests			
<i>Liabilities</i>			
Current Liabilities:			
Short Term Loans		2	5
Creditors	18	455	504
Total Current Liabilities		457	509
Term Liabilities:			
Term Debt	20	542	520
Provision for Deferred Taxation	19	-359	-354
Total Term Liabilities		183	166
Total Liabilities		640	675
<i>Ownership Interests</i>			
Fletcher Challenge Net Investment	10	971	950
Minority Equity	11	1	10
Total Ownership Interests		972	960
Total Liabilities and Ownership Interests		1,612	1,635

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

On behalf of the Board
6 December 2000



Roderick Deane
Chairman of Directors
Fletcher Challenge Limited



Michael Andrews
Director
Fletcher Challenge Limited

Statement of Cash Flows

for year ended 30 June

	2000 NZ\$m	1999 NZ\$m	1998 NZ\$m
Cash was Provided:			
From Operating Activities			
Receipts from Customers	2,388	2,698	3,109
Dividends Received	10	8	12
Interest Received	5	3	13
Total Provided	2,403	2,709	3,134
Payments to Suppliers, Employees and Other	2,225	2,528	2,964
Interest Paid	40	37	44
Income Tax Paid	5	5	4
Total Applied	2,270	2,570	3,012
Net Cash from Operating Activities	133	139	122
From Investing Activities			
Sale of Fixed Assets	38	46	51
Sale of Investments	6	32	22
Less Cash in Subsidiaries Disposed	-14		
Total Provided	30	78	73
Purchase of Fixed Assets	91	97	126
Interest Paid Capitalised in Fixed Assets		1	1
Purchase of Investments	8	13	3
Purchase of Subsidiaries	2	6	23
Purchase of Minority Equity	14		13
Total Applied	115	117	166
Net Cash from Investing Activities	-85	-39	-93
From Financing Activities			
Net Debt Drawdowns/(Settlements)	14	-50	31
Net Distribution of Net Investment to Fletcher Challenge Limited	-83	-51	-64
Net Cash from Financing Activities	-69	-101	-33
Net Movement in Cash Held	-21	-1	-4
Add Opening Cash and Liquid Deposits	76	81	78
Effect of Exchange Rate Changes on Net Cash	4	-4	7
Closing Cash and Liquid Deposits	59	76	81

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

**ANNEXURE D: Fletcher Challenge Limited –
Building Operations Financial Statements** *continued*

Statement of Cash Flows *continued*

for year ended 30 June

	2000 NZ\$m	1999 NZ\$m	1998 NZ\$m
Analysis of Subsidiary Disposed⁽¹⁾			
Fixed Assets	8		
Current Assets	14		
Current Liabilities	-22		
Net Assets of Subsidiary Disposed			
Gain on Disposal of Subsidiary			

(1) Subsidiary Disposed was Fletcher Pacific at book value.

Analysis of Subsidiaries Acquired

Cash Outflow on Purchase of Subsidiaries ⁽²⁾	2	6	23
Fixed Assets		4	13
Goodwill on Acquisition	2	3	10
Current Assets		1	11
Current Liabilities			-6
Minority Interest		-2	-5
	2	6	23

(2) Cash Outflow on Purchase of Subsidiaries includes Hire A Hubby Limited (\$1 million) and Fletcher Aluminium Pty Limited (\$1 million) in 2000, Siderurgica Boliviana S.A. (\$6 million) in 1999 and The Building Depot (\$11 million) and Concreto de Bolivia S.A. (\$12 million) in 1998.

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

Reconciliation of Net Earnings to Net Cash from Operating Activities

for year ended 30 June

	2000 NZ\$m	1999 NZ\$m	1998 NZ\$m
Cash was Provided from:			
Net Earnings	63	23	134
Adjustment for Items not involving Cash:			
Depreciation, Depletions, Amortisation and Provisions	57	113	79
Taxation	26	11	-5
Minority Interest in Earnings of Subsidiaries	-1	-3	-2
Equity Earnings		1	2
Non Cash Adjustments	82	122	74
Cash Flow from Operations ⁽¹⁾	145	145	208
Less (Gain)/Loss on Disposal of Affiliates and Fixed Assets	27	-3	-5
Cash Flow from Operations before Net Working Capital Movements	172	142	203
Net Working Capital Movements	-39	-3	-81
Net Cash from Operating Activities ⁽²⁾	133	139	122
Net Working Capital Movements:			
Debtors	-92	72	28
Stocks	-13	42	-52
Contracts	55	8	72
Creditors	11	-125	-129
	-39	-3	-81

(1) Includes (Gain)/Loss on Disposal of Affiliates and Fixed Assets.

(2) As per Statement of Cash Flows.

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

Notes to the Financial Statements

1 Targeted Share Structure Reorganisation

In December 1999 the Board of Directors of Fletcher Challenge resolved to propose to Shareholders the separation of the Group's targeted share structure. In October 2000 the Board announced a recommendation to Shareholders to separate Fletcher Challenge Building as a stand alone publicly listed company. The proposed transaction is to exchange each Fletcher Challenge Building Share for one Fletcher Building Limited Share. The consequences of the separation of the targeted share structure on the Financial Statements may be significant. With the exception of direct costs incurred to 30 June 2000, no financial impact has been recognised at 30 June 2000. Financial impacts, which may include restructuring costs, direct costs associated with the transactions and the carrying value of assets and liabilities will be recognised as each transaction occurs. Certain Fletcher Challenge Group tax benefits allocated to Fletcher Challenge Limited – Building Operations are not likely to be received by Fletcher Building as part of the proposed transaction. Some of those tax benefits will be transferred to other Fletcher Challenge divisions at fair value (which is less than recorded value), whilst other tax benefits will cease to exist and will be written off.

The Fletcher Challenge Limited – Building Operations Financial Statements presented are not necessarily indicative of the financial performance or financial position that would have occurred had the building operations existed as an independent legal entity as proposed by the Building Transaction. In addition, the accounting policies adopted in the preparation of the Fletcher Challenge Limited – Building Operations Financial Statements are not necessarily indicative of the accounting policies to be adopted in the preparation of the Fletcher Building Financial Statements.

2 Accounting Changes

(a) Changes in Accounting Policies

In the years ended 30 June 2000, 30 June 1999 and 30 June 1998, there were no changes in Accounting Policies.

(b) Recently Issued Accounting Standards

The US Financial Accounting Standards Board (FASB) has issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133). Fletcher Challenge Limited – Building Operations adopted SFAS 133, as amended by SFAS 138 "Accounting for Certain Derivative Instruments and Certain Hedging Activities, an amendment of SFAS 133", on 1 July 2000. SFAS 133 requires that all derivative instruments be recorded on the balance sheet at fair value. Changes in the fair value of derivatives are recorded each year in current earnings or Fletcher Challenge Limited – Building Operations' Ownership Interests, depending on whether a derivative is designated as part of a hedge transaction, the type of hedge transaction and the hedge effectiveness. The gains and losses that are recorded in Fletcher Challenge Limited – Building Operations' Ownership Interests will be taken to Earnings consistent with the underlying hedged item. The effect on Ownership Interests of adopting SFAS 133 at 1 July 2000 was less than \$1 million and is not expected to have a significant impact on future earnings.

In March 2000, the US Financial Accounting Standards Board issued FASB Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation – An Interpretation of APB Opinion No. 25" (FIN 44). FIN 44 clarifies the definition of an employee for purposes of calculating stock based compensation; the criteria for determining whether a plan qualifies as a noncompensatory plan; the accounting consequences of various modifications to the terms of previously fixed stock options of awards; and the accounting for an exchange of stock compensation awards in a business combination. FIN 44 is effective 1 July 2000. Fletcher Challenge Limited – Building Operations does not expect the application of FIN 44 to have a material impact on its financial position or results of operations.

During the year ended 30 June 2000, the Securities & Exchange Commission (SEC) issued Staff Accounting Bulletin 101 "Revenue Recognition in Financial Statements" (SAB 101), and amendments SAB 101A and SAB 101B. SAB 101 summarises the SEC's views in applying generally accepted accounting principles to revenue recognition. Fletcher Challenge Limited – Building Operations adopted SAB 101 with effect from 1 July 2000 and does not expect the application of SAB 101 to have an impact on its financial statements.

Notes to the Financial Statements *continued*

	2000 NZ\$m	1999 NZ\$m	1998 NZ\$m
3 Operating Revenue			
Operating Revenue from continuing operations includes:			
Sales			
Trading Sales to External Customers	2,345	2,632	2,946
Related Party Trading Sales (refer note 27)	11	17	44
	2,356	2,649	2,990
Investment Revenue			
Dividends	10	8	12
Interest	1	1	4
Income from Joint Ventures	13	7	9
	2,380	2,665	3,015

4 Operating Earnings

Operating Earnings from continuing operations includes:

Net Gains/(Losses) on Disposal of Fixed Assets	3	3	-1
Amortisation of Goodwill	6	3	6
Depreciation and Depletions:			
Depreciation Charged	75	81	74
Depletions of Resource Extraction Assets	1	1	2
Unusual Items:			
Restructuring and Separation Costs ⁽¹⁾	-33		
Permanent Impairment ⁽²⁾	-10	-49	
Research and Development	5	8	2
Bad Debts Written Off	6	5	4
Maintenance and Repairs	63	59	56
Operating Lease Expense	33	39	31
Auditors' Fees and Expenses Payable for:			
Statutory Audit	2	2	2
Other Services	1	2	2

(1) Restructuring and Separation Costs for June 2000 relate to costs of \$3 million associated with the separation of the Fletcher Challenge targeted share structure and the write off of \$30 million upon the reorganisation of the Employee Educational Fund (refer note 30).

(2) Permanent Impairment for June 2000 relates to the Fletcher Challenge Limited – Building Operations' activities in Fiji. The recent political turmoil in Fiji has had an immediate negative effect on those operations. Accordingly, the value of the assets has been reassessed resulting in a permanent impairment of \$10 million. Permanent Impairment for June 1999 related to the carrying value of the investment in the Xinda Iron and Steel operations in China of \$49 million. Xinda Iron and Steel continued to suffer from poor product prices, inadequate liquidity and a weak control environment. Having regard to all the uncertainties surrounding the viability of this venture the decision was made that it was no longer appropriate to consolidate Xinda Iron and Steel and to subsequently write off the net investment. The investment in Xinda was subsequently divested effective 21 September 1999 at book value. Fair value was determined based on the discounted cash flows.

**ANNEXURE D: Fletcher Challenge Limited –
Building Operations Financial Statements *continued***

Notes to the Financial Statements *continued*

5 Stock Based Compensation

Fletcher Challenge Group stock based compensation costs are allocated to Fletcher Challenge Limited – Building Operations to the extent the cost relates to options over Fletcher Challenge Building Shares of Fletcher Challenge Limited.

	2000 Number of Options	1999 Number of Options	1998 Number of Options
Fletcher Challenge Building Division Options exercisable at the end of the year	4,340,816	3,162,917	833,879
Fletcher Challenge Building Division Options not exercisable due to exercise period not yet reached	3,363,701	4,120,284	5,572,091
Weighted average remaining contractual life of outstanding options	5 years	6 years	6 years
Total Compensation Cost recognised in income	\$1m	\$1m	\$1m
Weighted average fair value of options granted during the year where the exercise price is less than the market price of shares (at grant date)			\$0.28
Weighted average fair value of options granted during the year where the exercise price exceeds the market price of shares (at grant date)	\$0.61	\$0.33	\$0.33

The weighted average fair values granted were calculated using the Black-Scholes options pricing formula. Significant assumptions used in applying this formula were as follows:

	2000 Weighted Average Value	1999 Weighted Average Value	1998 Weighted Average Value
Estimated life of options years	10	10	7
Estimated volatility of options %	35.0	20.0	23.6
Estimated dividends per share cents	20.9	27.8	17.1

On 24 November 2000, Fletcher Challenge made a cash offer (calculated by reference to the fair value of the option) to Fletcher Challenge Building share option holders in consideration for bringing forward the exercise date. If this offer is accepted the Fletcher Challenge Building options will lapse.

	2000 NZ\$m	1999 NZ\$m	1998 NZ\$m
6 Funding Costs			
Interest payable on:			
Term Debt – Specific		1	1
Term Debt – Corporate Borrowings	35	32	41
Short Term Loans and Bank Overdrafts	3	5	6
Income from Short Term Deposits	-4	-2	-3
	34	36	45
Less Interest Capitalised to Fixed Assets		-1	-1
	34	35	44

Notes to the Financial Statements *continued*

	2000 NZ\$m	1999 NZ\$m	1998 NZ\$m
7 Taxation			
Earnings before Taxation:			
Domestic	111	93	145
Foreign	-18	-56	-12
	93	37	133
Taxation at 33 cents per dollar	31	12	44
Adjusted for:			
Disposal of Affiliates		-1	
Permanent Impairment	3	16	
Non Assessable Income	-5	-3	-5
Restructuring and Separation Costs	11		
Other Permanent Differences	5		-36
Conduit Tax Relief	-12	-6	
Rates other than 33 cents	-2	-2	-4
	31	16	-1
Current Taxation			
Non New Zealand	5	5	1
Deferred Taxation			
New Zealand	37	32	16
Non New Zealand	-11	-21	-18
	31	16	-1
Current Taxation			
Fletcher Challenge Limited – Building Operations	3	1	-1
Allocated	2	4	2
Deferred Taxation			
Fletcher Challenge Limited – Building Operations	58	36	72
Allocated	-32	-25	-74
	31	16	-1

**ANNEXURE D: Fletcher Challenge Limited –
Building Operations Financial Statements *continued***

Notes to the Financial Statements *continued*

	2000 NZ\$m	1999 NZ\$m	1998 NZ\$m
8 Equity Earnings			
Fletcher Challenge Limited – Building Operations' share of the Earnings of Associates is:			
Operating Revenue	49	38	40
Operating Expenses	-39	-32	-31
Net Earnings	10	6	9
Less Dividends Received from Associates	-10	-7	-11
Equity Earnings		-1	-2
Earnings from Associates included in the Statement of Financial Performance comprise:			
Equity Earnings		-1	-2
Dividends Received	10	7	11
Total Earnings from Associates	10	6	9

9 Net Earnings per Share

As described in the Basis of Presentation in the Statement of Accounting Policies, Fletcher Challenge Limited – Building Operations is not defined by legal ownership and accordingly has no separate identifiable pool of capital or prospective capital structure upon which a per share calculation could be based. The unaudited pro forma basic and diluted net earnings per share for the year ended 30 June 2000 is NZ 14.4 cents per share and NZ 14.1 cents per share, respectively. The number of shares used in the computation was 331 million shares and 340 million shares, respectively, and was based upon the weighted average number of Fletcher Challenge Building shares on issue during the year ended 30 June 2000.

10 Fletcher Challenge Net Investment

Fletcher Challenge Net Investment comprises:			
Fletcher Challenge Equity Investment	976	961	980
Retained Earnings in Associates Reserve	-2	-2	-1
Investment Revaluation Reserve		3	4
Net Currency Translation Reserve	-3	-12	11
Fletcher Challenge Net Investment	971	950	994

Reserve Transfers

Equity Earnings of Associates transferred to Retained Earnings in Associates Reserve (refer note 8)		-1	-2
Retained Earnings in Associates transferred to Fletcher Challenge Equity Investment upon Disposal of Associate			-6

11 Minority Equity

Share Capital		8	
Reserves	1	2	
	1	10	

12 Cash and Liquid Deposits

Cash and Bank Balances	56	50	
Short Term Deposits	3	26	
	59	76	

13 Stocks

Raw Materials	59	64	
Work in Progress	41	41	
Finished Goods	237	221	
Consumable Stores and Spare Parts	31	31	
	368	357	

Notes to the Financial Statements *continued*

	2000 NZ\$m	1999 NZ\$m
14 Debtors		
Trade Debtors	277	252
Less Provision for Doubtful Debts	-11	-9
	266	243
Other Receivables	85	61
	351	304
15 Contracts		
Contract Debtors	115	161
Work in Progress	-79	-67
	36	94
Included within the carrying value of contracts are the expected outcomes of outstanding claims which have not yet been finally agreed with the client. Although this is accepted accounting practice within the construction industry, there is inherent uncertainty as to the eventual outcome, especially when legal proceedings may be required to achieve resolution. Claim recoverability is assessed on a claim by claim basis and included in the contract carrying value at the expected recoverable amount. At 30 June 2000 the total claim amount included was \$16 million (30 June 1999: \$27 million). It is also possible that a client may bring a claim or counter claim so that the total at risk may be greater than the total claim amount.		
16 Fixed Assets		
Cost		
Land	55	52
Buildings	116	115
Plant and Equipment	1,107	1,109
Resource Extraction Assets	7	8
Total Cost	1,285	1,284
Accumulated Depreciation		
Buildings	-47	-44
Plant and Equipment	-561	-543
Total Accumulated Depreciation	-608	-587
Diminished Value	677	697
Goodwill	22	21
Leased Assets Capitalised	13	
Total Fixed Assets	712	718
Land and Buildings Analysis		
Commercial	12	14
Industrial	111	108
Residential	1	1
Total Land and Buildings	124	123
Domicile of Fixed Assets		
New Zealand	594	606
South America	101	86
Other	17	26
Total Fixed Assets	712	718
Functional Currency of Fixed Assets		
New Zealand Dollar	594	606
Other Currencies	118	112
Total Fixed Assets	712	718

Resource extraction assets represents the unextracted resource available for mining and quarrying purposes.

At 30 June 2000 the Government valuations of Land and Buildings was \$171 million.

**ANNEXURE D: Fletcher Challenge Limited –
Building Operations Financial Statements** *continued*

Notes to the Financial Statements *continued*

	2000 NZ\$m	1999 NZ\$m
17 Investments		
Investment in Associates (a)	21	26
Investment in Other Companies	4	4
Joint Ventures	30	22
Pension Plan Surplus (refer note 31)	28	21
Other Investments	3	13
	86	86
(a) Combined Associates' Statement of Financial Position		
Current Assets	15	20
Term Assets	42	57
Total Assets	57	77
Current Liabilities	-8	-8
Term Liabilities	-7	-16
Total Liabilities	-15	-24
Net Assets	42	53
Interests held by Third Parties	-21	-27
Investment in Associates	21	26
Acquisition of Business or Subsidiary, Clause 8(3)(f)		
The net earnings of Fletcher Challenge Limited – Building Operations, excluding amounts derived using the equity method of accounting, were \$63 million, \$24 million and \$136 million in the periods ended 30 June 2000, 1999 and 1998 respectively. The total ownership interests, excluding amounts derived using the equity method of accounting, were \$974 million and \$962 million as at 30 June 2000 and 1999 respectively. Investments, excluding amounts derived using the equity method of accounting, were \$88 million as at both 30 June 2000 and 1999.		
18 Creditors		
Trade Creditors	339	356
Related Party Creditors (refer note 27)	6	9
Accrued Interest – Corporate Borrowings	9	12
Accrued Employee Benefits	29	28
Other Liabilities	72	99
	455	504

Notes to the Financial Statements *continued*

	2000 NZ\$m	1999 NZ\$m
19 Deferred Taxation		
Timing Differences:		
Deferred Taxation Assets:		
Net Operating Loss Carryforwards	412	385
Provision for Doubtful Debts	4	3
Net Other	20	19
Total Deferred Taxation Assets	436	407
Valuation Allowance ⁽¹⁾	-37	-24
Net Deferred Taxation Assets	399	383
Deferred Taxation Liabilities:		
Depreciation and Amortisation	-40	-29
Deferred Taxation	359	354
Current Deferred Taxation	6	5
Non Current Deferred Taxation	353	349
Deferred Taxation	359	354
Included within Net Operating Loss Carryforwards at 30 June are Operating Losses that have expiration dates:		
within one year		1
three years	7	
four years	3	9
five years	17	4
after five years	46	48
Operating Losses without expiration dates	339	323
	412	385
Deferred Taxation:		
Opening Deferred Taxation	354	353
Deferred Taxation in the Statement of Financial Performance	-26	-11
Divestments	9	
Deferred Taxation in Reserves	7	-13
Taxation on Distributions	7	8
Net Taxation Payments	8	17
Deferred Taxation	359	354
Deferred Taxation		
Fletcher Challenge Limited – Building Operations	-5	6
Taxation liabilities generated by Fletcher Challenge Limited – Building Operations owing to other Fletcher Challenge Group Companies	-280	-265
Allocated ⁽²⁾	644	613
	359	354

(1) During the year ended 30 June 2000, Fletcher Challenge Limited – Building Operations reviewed its taxation position and assessed the recovery of taxation assets by jurisdiction. Following the review it was determined that a valuation allowance of \$37 million (June 1999: \$24 million) was required. The net change in the total valuation allowance for the year ended 30 June 2000 was an increase of \$13 million. There was no change in the valuation allowance for the year ended 30 June 1999.

(2) The allocated tax benefit has been recognised in accordance with the accounting policy whereby the Fletcher Challenge Group future tax benefits, to the extent they exceed related deferred taxation liabilities, are not recognised unless recovery is considered certain and is expected to be made within two years.

**ANNEXURE D: Fletcher Challenge Limited –
Building Operations Financial Statements *continued***

Notes to the Financial Statements *continued*

20 Term Debt

Term Debt of Fletcher Challenge Limited – Building Operations is comprised of Specific Debt and allocated Corporate Borrowings.

Specific Debt

Fletcher Challenge Limited – Building Operations' Specific Debt includes finance lease obligations, debt borrowed by specifically identified building businesses and debt which is unequivocally linked to specific assets of building businesses.

	2000 NZ\$m	1999 NZ\$m
Loans not subject to Restrictive Undertakings (refer note 24):		
Loans with Floating Interest Rates	6	5
Loans with Fixed Interest Rates	14	
Specific Debt	20	5
Summary of Repayment Terms		
Due for Repayment:		
within one year	4	2
two years	5	1
three years	3	1
four years	3	1
five years	2	
after five years	3	
Specific Debt	20	5
Summary of Interest Rates by Repayment Period (%)		
Due for Repayment:		
within one year	10.0	13.2
two years	10.4	13.7
three years	10.0	13.5
four years	9.2	13.8
five years	8.1	
after five years	8.0	
Weighted Average Interest Rate	9.5	13.4
Denomination of Currencies:		
New Zealand Dollar	14	
United States Dollar	6	5
Specific Debt	20	5

The specific term debt of \$20 million is secured over equipment subject to finance leases (\$14 million) and mortgages on land, plant and equipment located in the South American concrete operations (\$6 million).

Notes to the Financial Statements *continued*

20 Term Debt *continued*

Corporate Borrowings

The remaining term debt represents Corporate Borrowings allocated to Fletcher Challenge Limited – Building Operations in accordance with the methodology described in the Statement of Accounting Policies.

Corporate Borrowings are denominated in New Zealand Dollars (30 June 1999: New Zealand Dollars and United States Dollars). The interest rates as at balance date were:

	2000 %	1999 %
New Zealand Dollar	7.1	6.4
United States Dollar		7.0

Corporate Borrowings are allocated interest at the weighted average interest rate of all the facilities of the Fletcher Challenge Group denominated in that currency.

Corporate Borrowings allocated to Fletcher Challenge Limited – Building Operations are:

	2000 NZ\$m	1999 NZ\$m
Corporate Borrowings	522	515

Fletcher Challenge Limited – Building Operations does not have any debt sharing arrangement with Fletcher Challenge Limited. Corporate Borrowings have been classified as long-term on the basis that Fletcher Challenge Limited has unused committed lines of credit which expire beyond one year and has used these to classify term debt repayable within one year as term debt in its Statement of Financial Position.

Settlements and drawdowns on Corporate Borrowings are allocated to the extent that Fletcher Challenge Limited – Building Operations generates surplus cash flow or requires additional funding.

ANNEXURE D: Fletcher Challenge Limited – Building Operations Financial Statements *continued*

Notes to the Financial Statements *continued*

21 Financial Instruments

(1) Management Policies

Currency Balance Sheet Risk

It is Fletcher Challenge Group policy to manage foreign exchange exposure to eliminate balance sheet ratio risk. Each business's non-monetary assets are recorded in their functional currency. The currency denomination of debt outstanding is managed so that the proportion of total debt represented by debt in each currency is approximately the same as the proportion of total assets recorded in each of those currencies. Where the proportion of the underlying debt in any currency does not equate to the required proportion of total debt, currency swaps are entered into to eliminate the exposure.

Currency Trade Risk

It is Fletcher Challenge Group policy that no currency exchange risk may be entered into or allowed to remain outstanding should it arise on trade transactions. When exposures are incurred by operations in currencies other than their functional currency, they are eliminated by hedging transactions. Such hedging transactions are entered into with Fletcher Challenge Group Treasury who match the exposures with other Fletcher Challenge Group companies, where those companies have opposite exposures in that currency. Any remaining currency exposures are eliminated by hedging transactions with external counterparties.

Interest Rate Risk

The Fletcher Challenge Group manages interest rates within the current policy of maintaining a fixed interest ratio in the range of 40 per cent to 60 per cent of total debt outstanding. The position in range is managed and depends upon underlying interest rate exposure and economic conditions.

Commodity Price Risk

Fletcher Challenge Limited – Building Operations uses commodity price swaps, futures and options to manage the market price risk of a commodity. Fletcher Challenge Limited – Building Operations manages its commodity price risk depending on the underlying exposures and the economic conditions.

Fletcher Challenge Limited – Building Operations does not enter into derivative financial instruments for trading purposes.

(2) Off Balance Sheet Risk

Currency forward exchange contracts, cross-currency and interest rate swaps, currency and interest rate options, forward rate agreements and commodity price swaps and options have been entered into in order to manage Fletcher Challenge Limited – Building Operations' currency, interest rate and commodity price exposure. Fluctuations in currency exchange rates, interest rates and commodity prices give rise to market risk that the underlying exposure and hedge financial instruments may change in value over time.

The total principal or contract amounts of currency forward exchange contracts and financial instruments with off balance sheet risk, entered into by Fletcher Challenge Limited – Building Operations are:

	2000 NZ\$m	1999 NZ\$m
Foreign Exchange		
Currency Forward Exchange Contracts		
To Pay	114	77
To Receive	-110	-76
	4	1
Currency Options Purchased	6	8
Interest Rate		
Interest Rate Swaps	7	11
Commodity Price		
Electricity Price Swaps	3	4

The cash settlement amounts of these instruments, if they settle on 30 June 2000, approximates the principal or contract amounts, except interest rate swaps, currency options and electricity price swaps, for which the cash settlement is limited to the fair value (refer (5) Fair Values).

Notes to the Financial Statements *continued*

21 Financial Instruments *continued*

(3) Credit Risk

To the extent Fletcher Challenge Limited – Building Operations has a receivable from another party there is a credit risk in the event of non-performance by that counterparty.

Contracts have been entered into with various counterparties in accordance with limits set forth by Management as to credit rating and dollar limits. Fletcher Challenge Limited – Building Operations does not require collateral or other security to support financial instruments. While Fletcher Challenge Limited – Building Operations may be subject to credit losses up to the principal or contract receivable amounts in the event of non-performance by its counterparties, it does not expect such losses to occur.

In accordance with the counterparty restrictions set by Management, there are no significant concentrations of credit risk.

(4) Interest Rate Repricing

In line with the Fletcher Challenge Group's interest rate policy a spread of long and short term fixed and floating rate borrowings and hedge instruments have been entered into. The following table sets out the interest rate repricing profile and weighted average interest rate of specific debt and interest rate hedges of Fletcher Challenge Limited – Building Operations:

	2000 NZ\$m	2000 %	1999 NZ\$m	1999 %
Interest Rate Repriced: (including average interest rate)				
within one year	8	11.6	5	13.5
two years	2	8.0		
three years	2	8.0		
four years	2	8.0		
five years	2	8.0		
after five years	4	8.0		
	20	9.5	5	13.5

Debtors and Creditors are not interest rate sensitive.

(5) Fair Values

The estimated fair values of specific financial assets and financial liabilities of Fletcher Challenge Limited – Building Operations which differ from carrying values are as follows:

	2000 Carrying Value NZ\$m	2000 Fair Value NZ\$m	1999 Carrying Value NZ\$m	1999 Fair Value NZ\$m
Specific Debt	20	20	5	5
Currency Forward Exchange Contracts		-1	1	-1
Electricity Price Swaps				1
	20	19	6	5

The carrying values in the fair value table include interest accruals which are included within Current Assets and Current Liabilities.

ANNEXURE D: Fletcher Challenge Limited – Building Operations Financial Statements *continued*

Notes to the Financial Statements *continued*

21 Financial Instruments *continued*

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practical to estimate that value:

Term Debt

The fair value of Fletcher Challenge Limited – Building Operations' specific term debt is estimated based on current market interest rates (including an appropriate margin) available to the borrowing entity for debt of similar maturities and on the basis that term debt at fixed interest rates is to maturity.

The fair value of allocated corporate borrowings has not been presented as this debt is a notional attribution from the total Fletcher Challenge Group debt.

Currency Forward Exchange Contracts, Currency Options, Interest Rate Swaps and Electricity Price Swaps

The fair value of currency forward exchange contracts, currency options, interest rate swaps and electricity price swaps is estimated based on the quoted or estimated market prices of those instruments.

Investments

It is not practical to estimate fair values of unlisted investments as there are no quoted market prices for those or similar investments. Unlisted investments are carried at net asset backing or at historical cost (refer note 17).

Cash and Liquid Deposits, Short Term Loans, Bank Overdrafts, Debtors and Creditors

The carrying amount of these items is equivalent to the fair value.

	2000 NZ\$m	1999 NZ\$m
22 Capital Expenditure Commitments		
Approved by the Directors but uncommitted at 30 June	4	4
Committed at 30 June	36	19
	40	23
For expenditure:		
within one year	40	23
	40	23

23 Lease Commitments

The expected future minimum rental payments required under operating leases that have initial or remaining non-cancellable lease terms in excess of one year at 30 June are as follows:

within one year	26	29
two years	23	25
three years	20	21
four years	18	18
five years	16	17
after five years	52	56
	155	166

Operating lease commitments relate mainly to occupancy lease of buildings.

Notes to the Financial Statements *continued*

	2000 NZ\$m	1999 NZ\$m
24 Contingent Liabilities		
Contingent liabilities with respect to guarantees extended on trading transactions, performance bonds and other transactions arising in the normal course of business	263	1,450
Letters of credit	4	3

No loss is expected in respect of the above transactions. Reference should be made to note 15 which discusses construction claim recoverability of outstanding claims which have not yet been finally agreed with the client.

On 10 October 2000, the board of directors of Fletcher Challenge Limited announced its recommendation to shareholders to separate Fletcher Challenge Building as a stand alone publicly listed company and to sell Fletcher Challenge Energy to the Shell and Apache corporations for US\$1.84 billion, with a recapitalised Fletcher Challenge Forests remaining as the sole business of Fletcher Challenge Limited. The board of directors also announced the creation of a New Zealand-based company, Rubicon, by way of an issue of shares to Energy shareholders. Rubicon will support the recapitalisation of Fletcher Challenge Forests through a commitment to the underwriters of the Fletcher Challenge Forests recapitalisation, Credit Suisse First Boston New Zealand (CSFBNZ), to purchase up to 40 per cent of any Fletcher Challenge Forests preference shares taken up by CSFBNZ up to \$170 million. Of these outstanding shares, Fletcher Challenge will procure that Rubicon has a put option to require Fletcher Challenge Limited – Building Operations to take up to \$50 million of such shares. If for some reason separation does not occur and Rubicon is not established by 30 April 2001, then Fletcher Challenge Industries Limited has agreed to compensate CSFBNZ, up to a maximum of \$200 million for any losses arising from its underwrite, of which up to \$50 million will be attributable to Fletcher Challenge Limited – Building Operations.

Fletcher Construction is involved in an arbitration in Melbourne, Australia, concerning a project known as the Victorian Hospitals Co-Generation Project. The project was completed in December 1994 but the parties involved in the project have been in dispute since that time. Proceedings were initiated in May 1997 and arbitration commenced in May 2000. Fletcher Construction is proceeding with claims for unpaid monies under the contract and the client (a subsidiary of AXA Pacific, formerly National Mutual Life Association of Australasia) has made a significant counterclaim for non-performance under the contract. Fletcher Challenge Limited – Building Operations is in discussions to resolve this dispute. However, if the arbitration proceeds, it is expected to continue until the last quarter of calendar 2003. A provision for this arbitration has been established within the Fletcher Challenge Limited – Building Operations financial statements which Fletcher Challenge Limited – Building Operations considers to be appropriate, although involvement in the litigation process is by its nature high risk. Fletcher Challenge Limited – Building Operations can give no assurance the outcome of the dispute will not have a materially adverse effect on its financial condition or results of operations.

Fletcher Construction is a party to a joint venture with Dillingham Construction International Inc. and Ilbau G.m.b.H, known as “FDI”, which is the contractor for the construction of the Second Manapouri Tailrace Tunnel. Construction of the tunnel has been delayed and is significantly behind schedule. FDI has claimed that the primary reason for the delay is differing site conditions which, in terms of the contract, are physical conditions encountered which differ from those prescribed in a pre-contract Geotechnical Baseline Report. FDI has lodged a claim pursuant to the contract for an extension of time and costs resulting from the differing conditions. It is anticipated that a disputes review board (which is established under the contract) will hear this dispute during the first quarter of calendar 2001. Fletcher Challenge Limited – Building Operations has recorded a provision on the contract in its financial statements which it considers to be appropriate, although involvement in the litigation process is by its nature high risk. No assurance can be given that the outcome of the dispute will not have a material adverse effect on Fletcher Challenge Limited – Building Operations’ financial condition or results of operations.

The Fletcher Challenge Group debt is predominantly managed on a centralised basis. The Group borrows funds based on covenants and a negative pledge referred to as the Restrictive Undertakings which ensures that external senior indebtedness of the designated borrowing group ranks equally in all respects. Substantially all of the Fletcher Challenge Limited – Building Operations activities are designated as part of the borrowing group, known as the Core Group, and are therefore subject to the covenants in the negative pledge which principally relate to restrictions on giving security and maximum debt to equity ratio levels.

ANNEXURE D: Fletcher Challenge Limited – Building Operations Financial Statements *continued*

Notes to the Financial Statements *continued*

25 Environment

It is Fletcher Challenge Group policy to monitor environmental performance on an ongoing basis and to require that all of its operations comply with applicable environmental regulatory requirements. As part of this policy, Management is required to report regularly to the Board of Directors on current and future environmental performance, and also commissions regular independent reports with respect to environmental management systems and the implementation of this policy.

Fletcher Challenge Limited – Building Operations is subject to numerous national and local environmental laws and regulations concerning its products, operations and other activities. Failure to comply with these laws and regulations may result in orders being issued that could cause certain of the Fletcher Challenge Limited – Building Operations' activities to cease or be curtailed or may require installation of additional equipment at substantial cost. Violators may be required to compensate those suffering loss or damage by reason of violations and may be fined if convicted of an offence under such legislation.

Management believes Fletcher Challenge Limited – Building Operations activities are in compliance in all material respects with applicable environmental laws and regulations.

26 Self Insurance

The Directors of Fletcher Challenge Limited believe that Fletcher Challenge Limited – Building Operations' risk management programmes are adequate to protect its assets and earnings against losses incurred, within a self insurance level of US\$25 million. Based on past experience, the Directors do not anticipate that future losses within this level would have a significant impact on Fletcher Challenge Limited – Building Operations' financial position or performance.

In certain circumstances, where required by law or where Management consider it appropriate, insurance may be arranged for exposures within the self insurance level.

In general terms, subject to its self insurance level, Fletcher Challenge Limited – Building Operations remains insured with insurers of high credit quality for the following risks at 30 June 2000:

	Loss Insured for each Event US\$million
Public and product liability	150
Loss or damage to property including business interruption	550
Marine public liability	75
Public and product liability resulting from construction activities	50
Property in the course of construction	50

Fletcher Challenge Limited – Building Operations has made provision for reported and estimated unreported losses incurred at balance date.

Fletcher Challenge Limited – Building Operations has completed an analysis of its capacity to retain otherwise insurable loss. As a stand alone entity, a self-insured retention of US\$10 million is considered appropriate. The current self-insured retention of US\$25 million will be reduced to US\$10 million on the date of separation. Limits of cover will remain unchanged.

Notes to the Financial Statements *continued*

27 Related Party Transactions

Allocated Costs – General and Administration

Certain general and administration costs are allocated to Fletcher Challenge Limited – Building Operations on bases which the Directors believe to be reasonable. These costs include management, audit, tax and accounting services, information technology, insurance, legal services and other general corporate costs, together with certain other specific project costs and consultancy fees. Such allocations are not necessarily indicative of what would have been incurred if Fletcher Challenge Limited – Building Operations had been operating as a separate legal entity. Amounts allocated to Fletcher Challenge Limited – Building Operations for these services were \$11 million, \$10 million and \$11 million in the periods ended 30 June 2000, 1999 and 1998 respectively and are included in Operating Expenses. In addition to the general and administrative costs of \$11 million for the year ended 30 June 2000, there was a write off of \$30 million upon the reorganisation of the Fletcher Challenge Employee Educational Fund (refer note 30). Directors' Fees allocated to Fletcher Challenge Limited – Building Operations were \$121,042, \$151,228 and \$151,114 in the periods ended 30 June 2000, 1999 and 1998 respectively.

Financial Instruments (refer note 21)

The total principal or contract amounts of currency forward exchange contracts with off balance sheet risk, entered into by Fletcher Challenge Limited – Building Operations with Fletcher Challenge Group Treasury are:

	2000 NZ\$m	1999 NZ\$m
Currency Forward Exchange Contracts:		
To Pay	114	77
To Receive	-110	-76
	4	1

The estimated fair values and the carrying values of these financial assets and financial liabilities entered into by Fletcher Challenge Limited – Building Operations with Fletcher Challenge Group Treasury are:

	2000 Carrying Value NZ\$m	2000 Fair Value NZ\$m	1999 Carrying Value NZ\$m	1999 Fair Value NZ\$m
Currency Forward Exchange Contracts		-1	1	-1

Methods and assumptions used to estimate fair values are disclosed in note 21.

ANNEXURE D: Fletcher Challenge Limited – Building Operations Financial Statements *continued*

Notes to the Financial Statements *continued*

27 Related Party Transactions *continued*

Pension Plans (refer note 31)

Fletcher Challenge Limited – Building Operations participates in Fletcher Challenge Group defined benefit Pension Plans that cover certain employees. There is no segregation or restriction of assets of the Pension Plans. The amounts included in note 31 in relation to allocated pension plans from Fletcher Challenge Group to Fletcher Challenge Limited – Building Operations are:

	2000 NZ\$m	1999 NZ\$m
Recognised Funded Surplus/Deficit	28	21
Net Periodic Pension Costs	7	2

If the Building transaction is completed, then Fletcher Challenge Limited – Building Operations will replace Fletcher Challenge as the “principal sponsoring company” of the pension plan.

	2000 NZ\$m	1999 NZ\$m	1998 NZ\$m
Related Party Trading Activities			
<i>Trading Activities with other Fletcher Challenge Group Operations⁽¹⁾</i>			
Intercompany sales to other Fletcher Challenge Group operations	11	17	44
Purchase of lumber and wood products from the Forests operations of the Fletcher Challenge Group	70	67	70
Amounts owing relating to the purchase of lumber and wood products from the Forests operations of the Fletcher Challenge Group, and included within Creditors	6	7	6
<i>Trading Activities with other Related Parties</i>			
Purchase of scrap metal from Sims Pacific Metals Limited	33	17	33
Amounts owing relating to the purchase of scrap metal from Sims Pacific Metals Limited, and included within Creditors		2	1

(1) All trading activities with other Fletcher Challenge Group operations are carried out on a commercial and arm's length basis.

28 Foreign Currencies

All monetary amounts in these financial statements are expressed in New Zealand Dollars unless otherwise stated.

An approximation of the New Zealand Dollar equivalent to the particular currencies is:

	2000 NZ\$	1999 NZ\$	1998 NZ\$
1,000 Australian Dollars	1,284	1,242	1,200
1,000 Canadian Dollars	1,440	1,281	1,342
1,000 Pounds Sterling	3,239	2,974	3,288
1,000 United States Dollars	2,134	1,892	1,974

Notes to the Financial Statements *continued*

29 United States GAAP Reconciliation

The Fletcher Challenge Limited – Building Operations Financial Statements are prepared in accordance with generally accepted accounting practice in the United States (US GAAP), where this does not conflict with New Zealand law. However, New Zealand law does differ in certain significant respects from US GAAP. These differences and the approximate effect of the adjustments necessary to restate Net Earnings and Total Ownership Interests, are detailed below. No differences exist for the Statement of Cash Flows.

(i) Minority Equity

Under US GAAP, Minority Equity would not be presented as a component of Total Ownership Interests.

(ii) Income Taxes

Fletcher Challenge Limited – Building Operations has not adopted SFAS 109 “Accounting for Income Taxes” for NZ GAAP purposes. Under Fletcher Challenge Limited – Building Operations’ accounting policies, tax assets, to the extent they exceed related deferred taxation liabilities, are not recognised unless recovery is considered certain and expected within two years. This criteria is more stringent than SFAS 109. However, the weight of the negative evidence indicates that for the periods presented it would be inappropriate to record further tax assets under either US GAAP or NZ GAAP. Accordingly, other than the tax impact on the GAAP differences noted, there are no adjustments for income taxes included in the reconciliation of Net Earnings and Ownership Interests under US GAAP. Fletcher Challenge Limited – Building Operations has adopted SFAS 109 disclosures in notes 7 and 19.

(iii) Employee Educational Fund

Under NZ GAAP the reorganisation of the Employee Educational Fund (EEF) in March 2000 removed the EEF from being an in-substance subsidiary of Fletcher Challenge Limited – Building Operations. Under US GAAP the new funds remain in-substance subsidiaries and continue to be accounted for under the Treasury Stock method.

(iv) Reconciliation under US GAAP

The application of the above described generally accepted accounting principles in the United States would have had the following approximate effect on Net Earnings and Total Ownership Interests:

	2000 NZ\$m	1999 NZ\$m	1998 NZ\$m
(a) Net Earnings			
As reported in accordance with NZ GAAP	63	23	134
Approximate US GAAP adjustment:			
(iii) Employee Educational Fund	30		
Approximate Net Earnings in accordance with US GAAP	93	23	134
(b) Total Ownership Interests			
As reported in accordance with NZ GAAP	972	960	1,027
Approximate US GAAP adjustments:			
(i) Minority Equity	-1	-10	-33
Approximate Total Ownership Interests in accordance with US GAAP	971	950	994

30 Employee Educational Fund

The Fletcher Challenge Employee Educational Fund (EEF) was established in 1985 to provide certain educational benefits to the Fletcher Challenge employees and their dependants.

On 31 March 2000, the Trustees and Fletcher Challenge, as part of the process of separating Fletcher Challenge’s targeted share structure, agreed to the assets of the EEF being resettled on to four separate funds for the Building, Energy, Forests and Paper operations, based on the number of employees in each operation.

Assets of the EEF included 12,305,425 Fletcher Challenge Building Shares previously accounted for under the Treasury Stock method and 5,472,528 Fletcher Challenge Forests Shares previously included within Other Investments. These shares were resettled at \$2.12 per Fletcher Challenge Building Share and \$0.52 per Fletcher Challenge Forests Share, the listed market values on 31 March 2000. Together with administrative changes to the Trust Deed of the new funds the resettlement removes the EEF from being an in-substance subsidiary.

**ANNEXURE D: Fletcher Challenge Limited –
Building Operations Financial Statements *continued***

Notes to the Financial Statements *continued*

31 Pension Plans

Fletcher Challenge Limited – Building Operations participates in Fletcher Challenge Limited defined benefit pension plans that cover certain employees. The benefits are based on years of service and the employees' compensation during their years of employment. Fletcher Challenge Limited – Building Operations' funding policy is to contribute to the plans to the extent that the service and interest cost of the plans are not covered by the return on plan assets and net amortisation and deferrals. Contributions are intended to provide not only for benefits attributed to service to date but also for those expected to be earned in the future. There are no Fletcher Challenge Limited – Building Operations plans which have accumulated benefit obligations that exceed plan assets.

Plan assets consist primarily of property, equity and fixed income securities. There is no segregation or restriction of assets of the Fletcher Challenge Limited defined benefit pension plans between other Fletcher Challenge Group companies.

Fletcher Challenge Limited – Building Operations is allocated pension plan assets, liabilities, income and expenses (refer note 27).

	2000 NZ\$m	1999 NZ\$m
Assets of Plans at Fair Value at the beginning of the year	254	257
Return on Assets	40	14
Total Contributions	2	1
Benefit Payments	-21	-18
Assets of Plans at Fair Value	275	254
Vested Accumulated Benefit Obligation	241	236
Total Accumulated Benefit Obligation	241	236
Excess of Plan Assets over Accumulated Benefit Obligation	34	18
Projected Benefit Obligation at the beginning of the year	-242	-250
Service Cost	-4	-4
Interest Cost	-11	-11
Member Contributions	-2	-1
Actuarial gain/(loss)	-9	6
Benefit Payments	21	18
Total Projected Benefit Obligation at 30 June	-247	-242
Assets of Plans at Fair Value	275	254
Funded Surplus	28	12
Less Funded Surplus Recognised		
(i) in Earnings in current year – Periodic Cost	7	2
(ii) in Earnings in previous years	21	19
Recognised Funded Surplus (refer note 17)	28	21
Projected Unrecognised Funded Surplus/(Obligation)		-9
Projected Unrecognised Funded Surplus/(Obligation) consists of:		
Unrecognised Prior Service Costs	-1	-1
Unrecognised Net Gain	-22	-37
Remaining Unamortised Balance of the Net Pension Plan Transition Asset	23	29
Projected Unrecognised Funded Surplus/(Obligation)		-9

Notes to the Financial Statements *continued*

	2000 NZ\$m	1999 NZ\$m
31 Pension Plans <i>continued</i>		
Net Periodic Pension Cost:		
Service Cost earned during the year	-4	-4
Interest Cost on Projected Benefit Obligation	-11	-11
Return on Assets	40	14
Net Amortisation and Deferral		
(i) Transition Amount	7	6
(ii) Prior Service Cost		-4
(iii) Gain/(Loss)		-2
(iv) Asset Gain/(Loss)	-25	3
Net Amortisation and Deferral	-18	3
Net Periodic Pension Cost	7	2

The following table provides the weighted average assumptions used to develop the net periodic pension cost and the actuarial present value of projected benefit obligations for Fletcher Challenge Limited – Building Operations' plans:

	2000 %	1999 %
Assumed Discount Rate on Benefit Obligations	4.8	4.8
Expected Long Term Rate of Return on Plan Assets	6.0	6.5
Rate of Increase in Future Compensation Levels	4.0	4.0

**ANNEXURE D: Fletcher Challenge Limited –
Building Operations Financial Statements** *continued*

Notes to the Financial Statements *continued*

32 Segmental Information Summary

Fletcher Challenge Limited – Building Operations is New Zealand's leading building materials manufacturer and distributor. Its operations are primarily New Zealand-based in concrete, steel, plasterboard, wood based panel products and aluminium extrusion. Fletcher Challenge Limited – Building Operations is also involved in commercial, industrial, civil and residential construction.

	Building Products NZ\$m	Concrete NZ\$m	Steel NZ\$m	Construction, Property & Housing NZ\$m	Distribution NZ\$m	Other NZ\$m	Fletcher Challenge Limited – Building Operations NZ\$m
June 2000							
Operating Revenue	299	438	417	858	359	9	2,380
Earnings before Interest, Taxation, Depreciation and Depletions	71	88	34	23	19	-32	203
Less Mining Depletions		1					1
Depreciation	17	33	13	5	7		75
Operating Earnings (EBIT)⁽¹⁾	54	54	21	18	12	-32	127
Unusual Items (included in EBIT)		-2	-8			-33	-43
Total Assets	233	541	357	271	147	63	1,612
Investment in Associates		12	8	1			21
Capital Expenditure	15	70	12	5	5	8	115
North America			8	6			14
Australia	68	1	28	162			259
New Zealand	201	347	356	483	323	9	1,719
South America	6	67					73
Europe			4				4
Asia	16		1		36		53
Pacific Basin	8	23	20	207			258
Total Operating Revenue by Destination	299	438	417	858	359	9	2,380
North America				6			6
Australia	12		3	162			177
New Zealand	281	366	408	494	323	9	1,881
South America	6	67					73
Asia					36		36
Pacific Basin		5	6	196			207
Total Operating Revenue by Origin	299	438	417	858	359	9	2,380
North America				2			2
Australia				-8			-8
New Zealand	56	67	31	17	12	-32	151
South America	-2	-11					-13
Asia			-2				-2
Pacific Basin		-2	-8	7			-3
Total EBIT	54	54	21	18	12	-32	127
North America							
Australia	19		2	35			56
New Zealand	211	388	348	187	134	45	1,313
South America	3	138					141
Europe						18	18
Asia		6		2	13		21
Pacific Basin		9	7	47			63
Total Assets	233	541	357	271	147	63	1,612

(1) Segmental EBIT Disclosure

"EBIT" is defined as Earnings before Taxation and Funding Costs which is described as Operating Earnings in the Statement of Financial Performance. Fletcher Challenge Limited – Building Operations believes that EBIT is a commonly used measure in New Zealand for discussing financial performance. Fletcher Challenge Limited – Building Operations, consistent with other publicly listed entities in New Zealand, has used EBIT as a measure of financial performance. It is not considered appropriate to allocate funding costs across the segments. EBIT is not an alternative to US GAAP earnings (loss, cash flows, or liquidity) as a measure of financial performance.

Notes to the Financial Statements *continued*

32 Segmental Information Summary *continued*

June 1999	Building Products NZ\$m	Concrete NZ\$m	Steel NZ\$m	Construction, Property & Housing NZ\$m	Distribution NZ\$m	Other NZ\$m	Fletcher Challenge Limited – Building Operations NZ\$m
Operating Revenue	262	414	470	1,223	286	10	2,665
Earnings before Interest, Taxation, Depreciation and Depletions	47	90	-23	22	12	6	154
Less Mining Depletions		1					1
Depreciation	15	30	18	6	6	6	81
Operating Earnings (EBIT)	32	59	-41	16	6		72
Unusual Items (included in EBIT)			-49				-49
Total Assets	231	496	360	328	147	73	1,635
Investment in Associates		17	8	1			26
Capital Expenditure	8	65	19	5	6	14	117
North America			4	35			39
Australia	43	1	28	151			223
New Zealand	192	329	334	517	253	10	1,635
South America	5	63					68
Europe			2				2
Asia	14	3	83	7	33		140
Pacific Basin	8	18	19	513			558
Total Operating Revenue by Destination	262	414	470	1,223	286	10	2,665
North America				35			35
Australia	6			151			157
New Zealand	253	344	381	525	253	10	1,766
South America	3	62					65
Asia		3	82	6	33		124
Pacific Basin		5	7	506			518
Total Operating Revenue by Origin	262	414	470	1,223	286	10	2,665
North America				2			2
Australia				-1			-1
New Zealand	33	57	19	13	6		128
South America	-1						-1
Asia		2	-60				-58
Pacific Basin				2			2
Total EBIT	32	59	-41	16	6		72
North America				5			5
Australia	2		1	46			49
New Zealand	219	361	344	163	133	55	1,275
South America	10	113					123
Europe						18	18
Asia		12		1	14		27
Pacific Basin		10	15	113			138
Total Assets	231	496	360	328	147	73	1,635

**ANNEXURE D: Fletcher Challenge Limited –
Building Operations Financial Statements** *continued*

Notes to the Financial Statements *continued*

32 Segmental Information Summary *continued*

June 1998	Building Products NZ\$m	Concrete NZ\$m	Steel NZ\$m	Construction, Property & Housing NZ\$m	Distribution NZ\$m	Other NZ\$m	Fletcher Challenge Limited – Building Operations NZ\$m
Operating Revenue	278	423	500	1,523	279	12	3,015
Earnings before Interest, Taxation, Depreciation and Depletions	61	104	52	17	14	5	253
Less Mining Depletions		2					2
Depreciation	16	24	19	8	4	3	74
Operating Earnings (EBIT)	45	78	33	9	10	2	177
Unusual Items (included in EBIT)							
Total Assets	243	471	534	477	138	93	1,956
Investment in Associates		5	9	1			15
Capital Expenditure	12	82	34	7	27	4	166
North America			3	323			326
Australia	41	1	28	174			244
New Zealand	206	359	356	459	230	12	1,622
South America	8	44		1			53
Europe	1		2				3
Asia	16	2	97	43	49		207
Pacific Basin	6	17	14	523			560
Total Operating Revenue by Destination	278	423	500	1,523	279	12	3,015
North America				323			323
Australia	5			175			180
New Zealand	268	372	398	467	230	12	1,747
South America	5	44					49
Asia		2	96	42	49		189
Pacific Basin		5	6	516			527
Total Operating Revenue by Origin	278	423	500	1,523	279	12	3,015
North America				-2			-2
Australia				-8			-8
New Zealand	42	79	44	12	10	2	189
South America	3						3
Asia		-1	-11				-12
Pacific Basin				7			7
Total EBIT	45	78	33	9	10	2	177
North America				42			42
Australia	2			52			54
New Zealand	233	369	333	242	120	64	1,361
South America	8	84					92
Europe						29	29
Asia		8	186	7	18		219
Pacific Basin		10	15	134			159
Total Assets	243	471	534	477	138	93	1,956

Notes to the Financial Statements *continued*

33 Principal Operations

As at 30 June 2000, Assets and Liabilities attributed to Fletcher Challenge Limited – Building Operations are largely owned by the following subsidiaries and associates.

	Country of Domicile	% Holding	Principal Activity
Principal Subsidiaries			
Cemac (Hong Kong) Limited	Hong Kong	100	Wall Partitions & Ceiling Systems
Duroid Limited	NZ	100	Insulation & Building Papers
Fletcher Aluminium Limited	NZ	100	Aluminium Extrusion
Fletcher Residential Limited	NZ	100	Housing
Fletcher Wood Panels Limited	NZ	100	Panel Products
Plyco Doors Limited	NZ	100	Door Manufacture
Scott Panel & Hardware Limited	NZ	100	Building Products
Winstone Wallboards Limited	NZ	100	Gypsum Plasterboard
Empresa Minera De Inversiones Sajama S.A.	Bolivia	100	Cement Manufacture
Firth Certified Concrete Limited	NZ	100	Concrete Products
Firth Industries Limited	NZ	100	Concrete Products
Firth Industries Peru S.A.	Peru	100	Concrete Products
Concreto De Bolivia S.A.	Bolivia	100	Concrete Products
Fletcher Challenge Concrete Industries (Fiji) Limited	Fiji	100	Quarrying
Hume Industries Limited	NZ	100	Drainage and Watermains
Metromix Concrete Company Limited	Fiji	100	Concrete Products
The Golden Bay Cement Company Limited	NZ	100	Cement Manufacture
Winstone Aggregates Limited	NZ	100	Quarrying
Fletcher Construction Australia Limited	Australia	100	Construction
Fletcher Construction Company (Fiji) Limited	Fiji	100	Construction
Fletcher Construction New Zealand and South Pacific Limited	NZ	100	Construction
Fletcher Construction (Solomon Islands) Limited	Solomon Is.	100	Construction
Fletcher Construction South Pacific Limited	NZ	100	Construction
Fletcher Morobe Construction Pty Limited	PNG	100	Construction
Fletcher Projects Pty Limited	Australia	100	Construction
The Fletcher Construction Company Limited	NZ	100	Construction
Fletcher Merchants Limited	NZ	100	Building Materials/Merchandising
The Building Depot Limited	NZ	100	Building Materials/Merchandising
Fletcher Property Limited	NZ	100	Property Management
Fletcher Challenge Building Limited	NZ	100	Holding Company
Fletcher Challenge Steel Limited	NZ	100	Steel Products
Pacific Coilcoaters Limited	NZ	100	Coated Steel Coil
Pacific Steel Limited	NZ	100	Steel Production
Siderurgica Boliviana S.A.	Bolivia	100	Steel Processing
Wire Makers Limited	NZ	100	Wire Products
Associates			
Fletcher Pioneer Mauritius Limited	India	50	Readymix
Sims Pacific Metals Limited	NZ	50	Metal Recycling

**ANNEXURE D: Fletcher Challenge Limited –
Building Operations Financial Statements *continued***

Independent Auditors' Report

to the Directors of Fletcher Challenge Limited



We have audited the Fletcher Challenge Limited – Building Operations Financial Statements on pages D3 to D37. The special purpose carve out financial statements provide information about the past financial performance and cash flows of the Fletcher Challenge Limited – Building Operations for the year ended 30 June 2000 and its financial position as at that date. This information is stated in accordance with the Basis of Presentation and Statement of Accounting Policies set out on pages D3 to D7.

As described in the Basis of Presentation on page D3 these special purpose carve out financial statements reflect the Building Operations of the Fletcher Challenge Group together with certain corporate allocations and are prepared solely for the purpose of the Building Transaction.

Directors' Responsibilities

The Directors of Fletcher Challenge Limited are responsible for the preparation of the Fletcher Challenge Limited – Building Operations Financial Statements which give a true and fair view of the financial position of the Fletcher Challenge Limited – Building Operations as at 30 June 2000 and of the results of its operations and cash flows for the year ended on that date.

Auditors' Responsibilities

It is our responsibility to express an independent opinion on the financial statements of Fletcher Challenge Limited – Building Operations 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; and
- whether the accounting and adopted policies are appropriate to Fletcher Challenge Limited – Building Operations' circumstances, consistently applied and adequately disclosed having regard to the Basis of Presentation on page D3.

We conducted our audit in accordance with Auditing Standards issued by the Institute of Chartered Accountants of New Zealand. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary to obtain sufficient evidence to give 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.

In forming our unqualified opinion, we have considered the adequacy of the disclosures made in Note 1 to the financial statements concerning the proposal to separate the Fletcher Challenge Group's targeted share structure. The outcomes of the proposal are uncertain and could result in the disposal of assets and liabilities at values different from those currently recorded, the recognition of additional liabilities and the loss of recognised taxation benefits.

The firms carry out other assignments for Fletcher Challenge Limited in the areas of tax and consultancy projects. The firms have no other relationship with or interests in Fletcher Challenge Limited.

Unqualified Opinion

We have obtained all the information and explanations we have required.

In our opinion, the financial statements on pages D3 to D37:

- comply with generally accepted accounting practice; and
- give a true and fair view of the financial position of Fletcher Challenge Limited – Building Operations as at 30 June 2000 and the results of its operations and cash flows for the year ended on that date.

Our audit was completed on 6 December 2000 and our unqualified opinion is expressed as at that date.

KPMG
Chartered Accountants

Auckland
New Zealand

PricewaterhouseCoopers
Chartered Accountants

ANNEXURE E: Financial Information about Fletcher Challenge After Separation

New Fletcher Challenge Forests

Condensed Unaudited Pro Forma Financial Statements

The information provided in this Annexure E does not, and is not intended to, form part of the Investment Statement.

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ANNEXURE E: Financial Information about Fletcher Challenge after Separation New Fletcher Challenge Forests

Condensed Unaudited Pro Forma Financial Statements *continued*

On 10 October 2000, the Board of Fletcher Challenge announced its proposal for completion of the dismantling of the Company's targeted share structure through the sale of Fletcher Challenge Energy and the separation of Fletcher Challenge Building, with Fletcher Challenge Forests remaining as the sole business of Fletcher Challenge Limited.

Condensed unaudited pro forma financial statements have been prepared to provide investors with information about the continuing impact of the proposed transactions by showing how they may have affected historical financial statements if the proposed transactions had been consummated at an earlier time. The condensed unaudited pro forma statements illustrate the possible scope of the change in the Company's historical financial position and financial performance caused by the proposed transactions. The New Fletcher Challenge Forests unaudited pro forma financial statements have been prepared in accordance with US Regulations that provide prescriptive guidance for the preparation of pro forma financial information.

The unaudited pro forma Statements of Financial Position and Financial Performance as at and for the year ended 30 June 2000 are derived from the audited Fletcher Challenge Group Statements of Financial Position and Financial Performance as at and for the year ended 30 June 2000. The pro forma Statement of Financial Position is prepared to give effect to the pro forma adjustments resulting from the transactions described below as if the transactions occurred on 30 June 2000 based upon the then current exchange rate and reported carrying values. The pro forma Statement of Financial Performance is prepared to give effect to the pro forma adjustments resulting from the transactions described below as if the transactions occurred on 1 July 1999:

- the sale of Fletcher Challenge Paper with settlement on 28 July 2000;
- the issuance of 1,709 million Fletcher Challenge Forests Preference Shares at a price of \$0.25 per share;
- the sale of Fletcher Challenge Energy;
- the separation of Fletcher Challenge Building;
- the sale of Fletcher Challenge Forests' biotechnology and South American assets to Rubicon, a new company expected to be created out of the restructuring of Fletcher Challenge;
- the subscription, by Rubicon, of \$60 million Fletcher Challenge Forests Preference Shares and \$30 million Fletcher Challenge Forests Shares; and
- the refinancing of New Fletcher Challenge Forests debt.

The unaudited pro forma Statements of Financial Performance for the years ended 30 June 1999 and 1998 are derived from the audited Fletcher Challenge Group Statements of Financial Performance and give effect to the pro forma adjustments, as if the following transactions had occurred at the beginning of each period:

- the sale of Fletcher Challenge Paper with settlement on 28 July 2000;
- the sale of Fletcher Challenge Energy; and
- the separation of Fletcher Challenge Building.

The pro forma adjustments are based upon currently available information and certain estimates and assumptions as at 7 November 2000. Actual adjustments may differ from the pro forma adjustments. The unaudited pro forma financial statements presented are not necessarily indicative of the financial performance or financial position that would have occurred had the transactions actually taken place on the dates specified or that may be expected to occur in the future. The unaudited pro forma financial statements should be read in conjunction with the Fletcher Challenge Limited Consolidated Financial Statements.

Amounts in these Financial Statements are NZ\$ unless otherwise stated.

ANNEXURE E: Financial Information about Fletcher Challenge after Separation New Fletcher Challenge Forests

Condensed Unaudited Pro Forma Financial Statements *continued*

Unaudited Pro Forma Statement of Financial Performance

for year ended 30 June 2000

	Fletcher Challenge Group As Reported NZ\$m	Discontinued Paper Operations (Note 2) NZ\$m	Fletcher Challenge Group Continuing Operations NZ\$m	Rights Issue (Note 3) NZ\$m	Pro Forma Sub-total NZ\$m	Other Pro Forma Adjustments (Note 4) NZ\$m	Pro Forma New Fletcher Challenge Forests NZ\$m
Operating Revenue	7,908	-3,422	4,486		4,486	-3,863	623
Operating Expenses	-7,016	3,085	-3,931		-3,931	3,351	-580
Operating Earnings	892	-337	555		555	-512	43
Funding Costs	-244	187	-57	30	-27	27	
Earnings before Taxation	648	-150	498	30	528	-485	43
Taxation	-85	103	18	-10	8	111	119
Earnings after Taxation	563	-47	516	20	536	-374	162
Minority Interest	-63	63				-1	-1
Equity Earnings	-118	18	-100		-100	5	-95
Net Earnings	382	34	416	20	436	-370	66
Basic Net Earnings per Share (cents)							
Fletcher Challenge Building	14.5		14.5		14.5		
Fletcher Challenge Energy	74.1		74.1		74.1		
Fletcher Challenge Forests ⁽¹⁾	9.6		9.6		9.6		7.2
Fletcher Challenge Paper	-10.0						
Diluted Net Earnings per Share (cents)							
Fletcher Challenge Building	14.1		14.1		14.1		
Fletcher Challenge Energy	63.0		63.0		63.0		
Fletcher Challenge Forests ⁽¹⁾	9.0		9.0		3.1		2.3
Fletcher Challenge Paper	-10.0						
Basic Weighted Average Number of Shares							
Outstanding (millions of shares)							
Fletcher Challenge Building	331		331		331		
Fletcher Challenge Energy	332		332		332		
Fletcher Challenge Forests	846		846		846	75	921
Fletcher Challenge Paper	637						
Diluted Weighted Average Number of Shares							
Outstanding (millions of shares)							
Fletcher Challenge Building	340		340		340		
Fletcher Challenge Energy	414		414		414		
Fletcher Challenge Forests	897		897	1,709	2,606	225	2,831
Fletcher Challenge Paper	637						

(1) For the purposes of calculating Net Earnings per Share under SFAS 128 "Earnings per Share" the Fletcher Challenge Forests Preference Shares are required to be excluded from the denominator for the calculation of Basic Net Earnings per Share and are included in the denominator for the calculation of Diluted Net Earnings per Share. Basic and Diluted Net Earnings per Share for Fletcher Challenge exclude the consolidation adjustments made in reconciling Divisional Net Earnings to Group Net Earnings. The consolidation adjustments primarily consist of the higher capitalised interest and depletions associated with the higher carrying value of the forest estate in the Fletcher Challenge consolidated Financial Statements. Following separation, Basic and Diluted Net Earnings per Share includes the impact of substituting the New Fletcher Challenge Forests' estate carrying value for the Divisional carrying value and the effects of the other pro forma adjustments on Net Earnings.

Unaudited Pro Forma Statement of Financial Performance

for year ended 30 June 1999

	Fletcher Challenge Group As Reported NZ\$m	Discontinued Paper Operations (Note 2) NZ\$m	Fletcher Challenge Group Continuing Operations NZ\$m	Other Pro Forma Adjustments (Note 4) NZ\$m	Pro Forma New Fletcher Challenge Forests NZ\$m
Operating Revenue	7,743	-3,425	4,318	-3,773	545
Operating Expenses	-7,298	3,202	-4,096	3,581	-515
Operating Earnings	445	-223	222	-192	30
Funding Costs	-220	186	-34	34	
Earnings before Taxation	225	-37	188	-158	30
Taxation	13	-12	1	40	41
Earnings after Taxation	238	-49	189	-118	71
Minority Interest	-27	32	5	-3	2
Equity Earnings	-110	11	-99		-99
Net Earnings	101	-6	95	-121	-26
Basic Net Earnings per Share (cents)					
Fletcher Challenge Building	2.5		2.5		
Fletcher Challenge Energy	12.3		12.3		
Fletcher Challenge Forests ⁽¹⁾	6.7		6.7		-3.2
Fletcher Challenge Paper	-3.8				
Diluted Net Earnings per Share (cents)					
Fletcher Challenge Building	2.4		2.4		
Fletcher Challenge Energy	11.9		11.9		
Fletcher Challenge Forests ⁽¹⁾	5.7		5.7		-3.6
Fletcher Challenge Paper	-3.8				
Basic Weighted Average Number of Shares					
Outstanding (millions of shares)					
Fletcher Challenge Building	324		324		
Fletcher Challenge Energy	326		326		
Fletcher Challenge Forests	824		824		824
Fletcher Challenge Paper	636				
Diluted Weighted Average Number of Shares					
Outstanding (millions of shares)					
Fletcher Challenge Building	336		336		
Fletcher Challenge Energy	337		337		
Fletcher Challenge Forests	888		888	-45	843
Fletcher Challenge Paper	636				

ANNEXURE E: Financial Information about Fletcher Challenge after Separation New Fletcher Challenge Forests

Condensed Unaudited Pro Forma Financial Statements *continued*

Unaudited Pro Forma Statement of Financial Performance

for year ended 30 June 1998

	Fletcher Challenge Group As Reported NZ\$m	Discontinued Paper Operations (Note 2) NZ\$m	Fletcher Challenge Group Continuing Operations NZ\$m	Other Pro Forma Adjustments (Note 4) NZ\$m	Pro Forma New Fletcher Challenge Forests NZ\$m
Operating Revenue	7,245	-2,822	4,423	-3,936	487
Operating Expenses	-6,835	2,746	-4,089	3,610	-479
Operating Earnings	410	-76	334	-326	8
Funding Costs	-218	185	-33	33	
Earnings before Taxation	192	109	301	-293	8
Taxation	255	-225	30	8	38
Earnings after Taxation	447	-116	331	-285	46
Minority Interest	-173	165	-8	-2	-10
Equity Earnings	-81	1	-80	-3	-83
Net Earnings	193	50	243	-290	-47
Basic Net Earnings per Share (cents)					
Fletcher Challenge Building	37.1		37.1		
Fletcher Challenge Energy	30.1		30.1		
Fletcher Challenge Forests ⁽¹⁾	-1.9		-1.9		-5.9
Fletcher Challenge Paper	-13.2				
Diluted Net Earnings per Share (cents)					
Fletcher Challenge Building	34.8		34.8		
Fletcher Challenge Energy	28.7		28.7		
Fletcher Challenge Forests ⁽¹⁾	-3.8		-3.8		-7.6
Fletcher Challenge Paper	-13.2				
Basic Weighted Average Number of Shares					
Outstanding (millions of shares)					
Fletcher Challenge Building	320		320		
Fletcher Challenge Energy	322		322		
Fletcher Challenge Forests	800		800		800
Fletcher Challenge Paper	636				
Diluted Weighted Average Number of Shares					
Outstanding (millions of shares)					
Fletcher Challenge Building	365		365		
Fletcher Challenge Energy	352		352		
Fletcher Challenge Forests	846		846		846
Fletcher Challenge Paper	636				

Unaudited Pro Forma Statement of Financial Position

as at 30 June 2000

	Fletcher Challenge Group As Reported NZ\$m	Discontinued Paper Operations (Note 2) NZ\$m	Rights Issue (Note 3) NZ\$m	Pro Forma Sub-total NZ\$m	Other Pro Forma Adjustments (Note 4) NZ\$m	Pro Forma New Fletcher Challenge Forests NZ\$m
Assets						
Current Assets:						
Cash and Liquid Deposits	1,053	-934		119	-113	6
Stocks	845	-368		477	-415	62
Debtors	1,554	-666		888	-794	94
Contracts	36			36	-36	
Total Current Assets	3,488	-1,968		1,520	-1,358	162
Term Assets:						
Fixed Assets	10,624	-5,241		5,383	-3,400	1,983
Investments	2,219	-245		1,974	-939	1,035
Other Non Current Assets	126			126	-126	
Total Assets	16,457	-7,454		9,003	-5,823	3,180
Liabilities and Equity						
Liabilities						
Current Liabilities:						
Short Term Loans	163	-80		83	-82	1
Creditors	1,793	-703		1,090	-986	104
Provisions for Dividends and Distributions	14	-8		6	-6	
Provision for Current Taxation	32	-31		1		1
Total Current Liabilities	2,002	-822		1,180	-1,074	106
Term Liabilities:						
Term Debt	4,653	-3,074	-414	1,165	-926	239
Deferred Oil and Gas Sales	117			117	-117	
Provision for Deferred Taxation	-142	277		135	252	387
Other Non Current Liabilities	396			396	-396	
Total Liabilities	7,026	-3,619	-414	2,993	-2,261	732
Equity						
Equity	6,497	-1,320	414	5,591	-3,179	2,412
Capital Funds	766	-384		382	-382	
Equity and Capital Funds	7,263	-1,704	414	5,973	-3,561	2,412
Minority Equity	2,168	-2,131		37	-1	36
Total Equity and Capital Funds	9,431	-3,835	414	6,010	-3,562	2,448
Total Liabilities and Equity	16,457	-7,454		9,003	-5,823	3,180

Notes to the Unaudited Pro Forma Financial Statements

1. Basis of Presentation

The unaudited pro forma Financial Statements of New Fletcher Challenge Forests are presented in New Zealand dollars and have been prepared in accordance with the accounting policies of Fletcher Challenge Limited (US GAAP where this does not conflict with New Zealand law). However, New Zealand law does differ in certain significant respects from US GAAP. A reconciliation of the unaudited pro forma Financial Statements to US GAAP is included in Note 6.

Refer to page E3 of these unaudited pro forma Financial Statements for an explanation of the Transactions reflected herein.

The pro forma adjustments relating to the sale of Fletcher Challenge Paper, the sale of Fletcher Challenge Energy and the separation of Fletcher Challenge Building reflect the operations as included in the Divisional Financial Statements as at and for the year ended 30 June 2000 and for the years ended 30 June 1999 and 30 June 1998.

Following separation Fletcher Challenge Limited will change its name to Fletcher Challenge Forests Limited. "New Fletcher Challenge Forests" has been used in these unaudited pro forma Financial Statements to describe the pro forma results of Fletcher Challenge Limited after giving effect to the adjustments resulting from the transactions described herein.

2. Discontinued Paper Operations

In April 2000 the Board of Directors of Fletcher Challenge announced that it had entered into an agreement to sell Fletcher Challenge Paper to Norske Skogindustrier ASA (Norske Skog). Subsequent to 30 June 2000, the transaction was approved by Fletcher Challenge Shareholders and final orders were granted by the High Court, and settlement occurred on 28 July 2000. Under the terms of the agreement Norske Skog acquired all of the outstanding Fletcher Challenge Paper Shares and delivered these to Fletcher Challenge, and made a cash payment to Fletcher Challenge equal to the sum of the Fletcher Challenge Group debt and Fletcher Challenge Industries Limited Capital Notes attributed to Fletcher Challenge Paper as at settlement date of the transaction and Fletcher Challenge Paper's share of the total costs of separating Fletcher Challenge's targeted share structure.

The Discontinued Paper Operations column includes adjustments to reflect sales by Fletcher Challenge Forests to Fletcher Challenge Paper of \$74 million (June 1999: \$73 million; June 1998: \$62 million) and receivables between Fletcher Challenge Forests and Fletcher Challenge Paper (\$9 million) to recognise Fletcher Challenge Paper as an external party.

3. Rights Issue

Fletcher Challenge will raise \$427 million (before deducting estimated issue expenses of \$13 million), by way of a renounceable pro rata offer of 1,709 million Fletcher Challenge Forests Preference Shares to existing Fletcher Challenge Forests Shareholders. The proceeds from the issue will be used to repay term debt. The earnings impact adjustment reflects the pro forma reduction of funding costs for the year from the reduction in term debt at an average interest rate of 7.24% and the related adjustment to the taxation charge.

Notes to the Unaudited Pro Forma Financial Statements *continued*

4. Pro Forma Adjustments

for year ended 30 June 2000

	Fletcher Challenge Building As Reported NZ\$m	Fletcher Challenge Energy As Reported NZ\$m	Consolidation Adjustments (Note 4(a)) NZ\$m	Other Pro Forma Adjustments NZ\$m	Note	Total Pro Forma Adjustments NZ\$m
Operating Revenue	-2,380	-1,564	11	70	4(b)	-3,863
Operating Expenses	2,253	1,171	-11	-70	4(b)	3,351
				4	4(c)	
				4	4(h)	
Operating Earnings	-127	-393		8		-512
Funding Costs	34	79		-86	4(d)	27
Earnings before Taxation	-93	-314		-78		-485
Taxation	31	53		27	4(e)	111
Earnings after Taxation	-62	-261		-51		-374
Minority Interest	-1					-1
Equity Earnings				5	4(f)	5
Net Earnings	-63	-261		-46		-370

for year ended 30 June 1999

	Fletcher Challenge Building As Reported NZ\$m	Fletcher Challenge Energy As Reported NZ\$m	Consolidation Adjustments (Note 4(a)) NZ\$m	Other Pro Forma Adjustments NZ\$m	Note	Total Pro Forma Adjustments NZ\$m
Operating Revenue	-2,665	-1,192	17	67	4(b)	-3,773
Operating Expenses	2,593	1,072	-17	-67	4(b)	3,581
Operating Earnings	-72	-120				-192
Funding Costs	35	63		-64	4(d)	34
Earnings before Taxation	-37	-57		-64		-158
Taxation	16	3		21	4(e)	40
Earnings after Taxation	-21	-54		-43		-118
Minority Interest	-3					-3
Equity Earnings	1	-1				
Net Earnings	-23	-55		-43		-121

ANNEXURE E: Financial Information about Fletcher Challenge after Separation New Fletcher Challenge Forests

Condensed Unaudited Pro Forma Financial Statements *continued*

Notes to the Unaudited Pro Forma Financial Statements *continued*

4. Pro Forma Adjustments *continued*

for year ended 30 June 1998

	Fletcher Challenge Building As Reported NZ\$m	Fletcher Challenge Energy As Reported NZ\$m	Consolidation Adjustments (Note 4(a)) NZ\$m	Other Pro Forma Adjustments NZ\$m	Note	Total Pro Forma Adjustments NZ\$m
Operating Revenue	-3,015	-1,035	44	70	4(b)	-3,936
Operating Expenses	2,838	882	-40	-70	4(b)	3,610
Operating Earnings	-177	-153	4			-326
Funding Costs	44	60		-71	4(d)	33
Earnings before Taxation	-133	-93	4	-71		-293
Taxation	-1	-14		23	4(e)	8
Earnings after Taxation	-134	-107	4	-48		-285
Minority Interest	-2					-2
Equity Earnings	2	-5				-3
Net Earnings	-134	-112	4	-48		-290

Notes to the Unaudited Pro Forma Financial Statements *continued*

4. Pro Forma Adjustments *continued* as at 30 June 2000

	Fletcher Challenge Building As Reported NZ\$m	Fletcher Challenge Energy As Reported NZ\$m	Consolidation Adjustments (Note 4(a)) NZ\$m	Other Pro Forma Adjustments NZ\$m	Note	Total Pro Forma Adjustments NZ\$m
Assets						
Current Assets:						
Cash and Liquid Deposits	-64	-49				-113
Stocks	-368	-43		-4	4(f)	-415
Debtors	-351	-460		6	4(b)	-794
				-1	4(f)	
				12	4(i)	
Contracts	-36					-36
Total Current Assets	-819	-552		13		-1,358
Term Assets:						
Fixed Assets	-712	-2,685		-3	4(f)	-3,400
Investments	-86	-821		-32	4(f)	-939
Other Non Current Assets		-126				-126
Total Assets	-1,617	-4,184		-22		-5,823
Liabilities and Equity						
<i>Liabilities</i>						
Current Liabilities:						
Short Term Loans	-42	-40				-82
Creditors	-455	-537		6	4(b)	-986
Provision for Dividends and Distributions	-3	-3				-6
Provision for Current Taxation						
Total Current Liabilities	-500	-580		6		-1,074
Term Liabilities:						
Term Debt	-507	-296		-80	4(f)	-926
				-90	4(g)	
				35	4(h)	
				12	4(i)	
Deferred Oil and Gas Sales		-117				-117
Provision for Deferred Taxation	359	-107				252
Other Non Current Liabilities		-396				-396
Total Liabilities	-648	-1,496		-117		-2,261
<i>Group Equity</i>						
Equity	-777	-2,497		40	4(f)	-3,179
				90	4(g)	
				-35	4(h)	
Capital Funds	-191	-191				-382
Equity and Capital Funds	-968	-2,688		95		-3,561
Minority Equity	-1					-1
Total Equity and Capital Funds	-969	-2,688		95		-3,562
Total Liabilities and Equity	-1,617	-4,184		-22		-5,823

**ANNEXURE E: Financial Information about Fletcher Challenge after Separation
New Fletcher Challenge Forests**
Condensed Unaudited Pro Forma Financial Statements *continued*

Notes to the Unaudited Pro Forma Financial Statements *continued*

4. Pro Forma Adjustments *continued*

4(a) Consolidation Adjustments

Eliminates inter-divisional transactions recorded within the Fletcher Challenge Building and Energy Financial Statements.

4(b) Fletcher Challenge Forests Consolidation Adjustments

The unaudited pro forma Financial Statements have been prepared by deconsolidating Fletcher Challenge Building and Energy from the Fletcher Challenge Group. The following consolidation adjustments are recorded to recognise Fletcher Challenge Building and Energy as external parties separate from New Fletcher Challenge Forests:

- (a) recognition of inter-divisional sales of \$70 million (June 1999: \$67 million; June 1998: \$70 million) by Fletcher Challenge Forests to Fletcher Challenge Building; and
- (b) recognition of inter-divisional receivables (\$6 million) by Fletcher Challenge Forests from Fletcher Challenge Building.

4(c) Depletion Charge

It is assumed that the proceeds from the rights issue and asset sales are used to repay term debt. The decreased debt levels result in lower interest and lower amounts of capitalised interest. The reduced amount of interest capitalised reduces the rate at which the forest crop value increases, which in turn reduces the depletion on harvested trees.

4(d) Interest

New Fletcher Challenge Forests can only capitalise interest to the level incurred on external debt. The pro forma adjustment removes interest expense on the debt attributed to Fletcher Challenge Building and Energy, includes a reduction in interest expense resulting from the proceeds received upon separation and reflects the capitalisation of the resulting net interest.

4(e) Taxation

Reflects the taxation impact on the pro forma earnings adjustments.

4(f) Asset Sales

Fletcher Challenge Forests' biotechnology and South American assets, with a combined carrying value of \$40 million, are to be sold for \$80 million to Rubicon, a new company expected to be created out of the restructuring of Fletcher Challenge. The adjustment reverses the equity loss of \$5 million incurred in the year ended 30 June 2000 for the South American operations. Under New Zealand GAAP the transactions would result in a gain of \$40 million. The gain is not considered to be an ongoing result of the transaction and is excluded from the pro forma Statement of Financial Performance. Under US GAAP the transaction would be considered a transaction between entities under common control and therefore no gain would be recorded. The proceeds from sale have been used to repay debt with an expected average interest rate of 9%.

4(g) Placement of Shares to Rubicon

Upon completion of the restructuring process, Rubicon will subscribe for 150 million Fletcher Challenge Forests Preference Shares and 75 million Fletcher Challenge Forests Shares, both at a price of \$0.40 per share. The proceeds from the issue will be used to repay debt with an expected average interest rate of 9%.

4(h) Direct Transaction Costs Incurred by New Fletcher Challenge Forests

Direct costs of \$4 million associated with the separation of the Fletcher Challenge targeted share structure expensed in the year ended 30 June 2000 have been reversed in the pro forma Statement of Financial Performance. These costs and additional separation costs, to be attributed to New Fletcher Challenge Forests, estimated to be \$35 million, have not been included in the New Fletcher Challenge Forests Pro Forma Statement of Financial Performance as they are considered to be non-recurring charges directly attributable to the transaction.

Notes to the Unaudited Pro Forma Financial Statements *continued*

4(i) *Financing Activity*

New Fletcher Challenge Forests has arranged a fully underwritten five year term debt facility of US\$200 million available immediately upon separation. The facility comprises three tranches of (a) US\$75 million loan with amortisation in years 3, 4 and 5; (b) US\$100 million five year term loan and (c) US\$25 million five year revolving credit facility. The margin for the term facility is linked to a gearing ratio and ranges between 1.25% and 3.25% above LIBOR. The revolving facility has a line fee of 0.75% and a margin which ranges between 0.50% and 2.50% depending on gearing. Establishment fees of \$12 million have been capitalised and will be amortised over the term of the facilities.

5. *Unusual Items*

Included within Operating Earnings are the following Unusual Items:

- Other Gains in June 2000 relating to the receipt of Chile forest fire insurance proceeds of \$11 million.
- Gain on Disposal of Affiliates in June 1999 relating to the sale of the Chilean forestry operations of \$66 million.
- Permanent Impairment for June 1999 relating to the carrying value of non forest estate assets of \$14 million and losses from the Chile forest fire of \$30 million.

Included within Taxation is a taxation benefit of \$93 million (June 2000) relating to the release of previously unrecognised taxation benefits. In addition, a taxation credit of \$20 million (June 2000), \$27 million (June 1999) and \$16 million (June 1998) were recorded as Unusual Items.

Included within Equity Earnings is a writedown in the carrying value of the investment in the CNIF Partnership of \$62 million (June 2000), \$32 million (June 1999) and \$49 million (June 1998) and a \$24 million (June 1999) writedown in the carrying value of the investment in Forestadora Tapebicué S.A.

6. *US GAAP Reconciliation*

The unaudited pro forma condensed Financial Statements are prepared in accordance with generally accepted accounting practice in the United States ("US GAAP"), where this does not conflict with New Zealand law. However, New Zealand law does differ in certain significant respects from US GAAP. These differences and the approximate effect of the adjustments necessary to restate New Fletcher Challenge Forests unaudited pro forma Statement of Financial Performance and pro forma Total Equity, are detailed below.

6(i) *Minority Equity*

Under US GAAP, Minority Equity would not be presented as a component of New Fletcher Challenge Forests Equity.

6(ii) *Permanent Impairment*

When a Permanent Impairment loss arises, the impairment under NZ and US GAAP is measured as the amount by which the book value exceeds the fair value of the assets. Permanent Impairment is deemed to occur when the recoverable amount falls below the book value of the assets. Under NZ GAAP, the recoverable amount is determined to be the sum of expected future discounted net cash flows arising from the ownership of the assets. Under US GAAP, the recoverable amount is determined to be the sum of expected future undiscounted net cash flows from the ownership of the assets. In June 2000 and June 1998 this difference resulted in a reduced writedown in the carrying value of the investment in the CNIF Partnership under US GAAP.

ANNEXURE E: Financial Information about Fletcher Challenge after Separation
New Fletcher Challenge Forests
Condensed Unaudited Pro Forma Financial Statements *continued*

Notes to the Unaudited Pro Forma Financial Statements *continued*

6(iii) Reconciliation under US GAAP

The application of the above described generally accepted accounting principles in the United States would have had the following approximate effect on New Fletcher Challenge Forests Pro Forma Net Earnings, Earnings per Share and Total Equity:

	June 2000 NZ\$m	June 1999 NZ\$m	June 1998 NZ\$m
(a) Pro Forma Net Earnings			
In accordance with NZ GAAP	66	-26	-47
Approximate US GAAP adjustment:			
(ii) Permanent Impairment ⁽¹⁾	7		22
Approximate Pro Forma Net Earnings in accordance with US GAAP	73	-26	-25

(1) Net of Taxation credit of \$4 million for June 2000 (June 1998: \$10 million).

(b) Pro Forma Earnings per Share

Using Pro Forma Net Earnings calculated under US GAAP results in the following Pro Forma Earnings per Share amounts:

Pro Forma Basic Net Earnings per New Fletcher Challenge Forests

Share (cents) ⁽¹⁾	7.9	-3.2	-3.1
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Pro Forma Diluted Net Earnings per New Fletcher Challenge Forests

Share (cents) ⁽¹⁾	2.6	-3.6	-5.0
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(1) For the purposes of calculating Net Earnings per Share under SFAS 128 "Earnings per Share" the Fletcher Challenge Forests Preference Shares are required to be excluded from the denominator for the calculation of Basic Net Earnings per Share and are included in the denominator for the calculation of Diluted Net Earnings per Share.

	June 2000 NZ\$m
(c) Pro Forma Total Equity	
In accordance with NZ GAAP	2,448
Approximate US GAAP adjustments:	
(i) Minority Equity	-36
(ii) Permanent Impairment	29
Approximate Pro Forma Total Equity in accordance with US GAAP	2,441

ANNEXURE F: Auditor's Report



The Directors
Fletcher Challenge Limited
Fletcher Challenge House
810 Great South Road
Penrose
AUCKLAND

24 January 2001

Dear Directors

Historical financial information for Fletcher Challenge Limited – Building Operations

We have prepared this report for inclusion in the Information Memorandum to be dated 24 January 2001.

As auditors of Fletcher Challenge Limited – Building Operations, and in accordance with the requirements of the New Zealand Securities Act 1978, clause 36 of the Second Schedule to the New Zealand Securities Regulations 1983, we report as follows:

Directors' Responsibilities

The Directors of Fletcher Challenge Limited are responsible for the preparation and presentation of the historical financial information of Fletcher Challenge Limited – Building Operations as required by clause 8(3)(f) of the Second Schedule to the New Zealand Securities Regulations 1983.

Auditors' Responsibilities

We are responsible for expressing an independent opinion on the historical financial information presented by the Directors in accordance with clause 8(3)(f) of the Second Schedule to the New Zealand Securities Regulations 1983.

Basis of opinion

We have undertaken procedures to provide reasonable assurance that the amounts set out in Fletcher Challenge Limited – Building Operations selected financial data on pages 28 to 30, and the Fletcher Challenge Limited – Building Operations Financial Statements on pages D3 to D37, pursuant to clause 8(3)(f) of the Second Schedule to the New Zealand Securities Regulations 1983, have been correctly taken from audited financial statements.

Our firms carry out other assignments for Fletcher Challenge Limited in the areas of taxation advice and consultancy projects. The firms have no other relationship or interests in Fletcher Challenge Limited.

Unqualified opinion

In respect of the amounts stated pursuant to clause 8(3)(f) of the Second Schedule to the New Zealand Securities Regulations 1983, in our opinion:

- (a) the Statement of Financial Performance amounts for the years ended 30 June 1998, 1999 and 2000 and the Statement of Financial Position amounts as at 30 June 1999 and 2000 on pages 28 to 30 have been correctly taken from the audited Fletcher Challenge Limited – Building Operations special purpose carve out financial statements;
- (b) the Statement of Financial Performance amounts for the years ended 30 June 1996 and 1997 and the Statement of Financial Position amounts as at 30 June 1996, 1997 and 1998 on pages 28 to 30 have been correctly derived and compiled from the audited financial statements of the Fletcher Challenge Group on a basis consistent with the basis of accounting described in the Basis of Presentation of Fletcher Challenge Limited – Building Operations financial statements.
- (c) the Fletcher Challenge Limited – Building Operations Financial Statements for the year ended 30 June 2000 on pages D3 to D37 have been correctly taken from audited financial statements.

KPMG and PricewaterhouseCoopers take no responsibility for, nor do we report on, any part of the Information Memorandum not mentioned in this report.

Yours faithfully

KPMG
Chartered Accountants
Auckland
New Zealand

PricewaterhouseCoopers
Chartered Accountants
Auckland
New Zealand

ANNEXURE G: Trustee's Statement



24 January 2001

The Directors
Fletcher Building Limited
583 Great South Road
Penrose
Auckland

Dear Directors

Capital Notes

As required by Clause 13(3) of the Second Schedule to the Securities Regulations 1983, we confirm that the offer by Fletcher Building Limited (the "Company") of Capital Notes (the "Securities") set out in the Investment Statement and Prospectus which forms part of this Information Memorandum dated 24 January 2001 complies with any relevant provisions of the Amended and Restated Trust Deed dated 24 January 2001 (the "Trust Deed"). These provisions are those which:

- (i) entitle the Company to constitute and issue under the Trust Deed the Securities offered in the Investment Statement and Prospectus; and
- (ii) impose restrictions on the right of the Company to offer the Securities,

and are described in the summary of the Trust Deed contained in the Investment Statement and Prospectus which forms part of this Information Memorandum.

The Auditors have reported on certain of the financial information set out in the Investment Statement and Prospectus which forms part of this Information Memorandum and our statement does not refer to any financial information or to any material in the Investment Statement and Prospectus which forms part of this Information Memorandum which does not relate to the Trust Deed. Subject to the duties imposed by the Fifth Schedule to the Securities Regulations 1983, Perpetual Trust Limited relies on the information supplied to it by the Company pursuant to the Trust Deed and does not carry out an independent check of that information.

Perpetual Trust Limited does not guarantee the repayment of the Securities or the payment of interest thereon, or conversion or purchase of the Securities.

Yours faithfully



Nigel Cook
Corporate Services Manager

ANNEXURE H: Form of Initial High Court Orders

**In the High Court of New Zealand
Auckland Registry**

M No. 1719-AS/00

In the matter of an Arrangement under Part XV of the Companies Act 1993

between

Fletcher Challenge Limited, a duly incorporated company having its registered office at Auckland and carrying on business as a holding company

First Applicant

and

Fletcher Challenge Industries Limited, a duly incorporated company having its registered office at Auckland

Second Applicant

and

Exploration Holdings Limited, a duly incorporated company having its registered office at Auckland

Third Applicant

and

Building Holdings Limited, a duly incorporated company having its registered office at Auckland

Fourth Applicant

and

Fletcher Building Limited, a duly incorporated company having its registered office at Auckland

Fifth Applicant

Initial orders and directions under section 236 of the Companies Act 1993

BEFORE THE HONOURABLE JUSTICE ROBERTSON
Tuesday the 30th day of January 2001

UPON READING the amending originating application for orders approving an arrangement under Part XV of the Companies Act 1993, the amended ex parte notice of interlocutory application for orders and for initial directions under section 236 of the Companies Act 1993, the affidavits of Dr Roderick Sheldon Deane, Michael John Lorimer and Martin Clive Farrell sworn in support of those applications and **UPON HEARING** Mr A R Galbraith QC, Mr R G Simpson and Mr B D Gilbertson, counsel for the first, second, fourth and fifth applicants and Mr P G Foley and M A Crosbie, counsel for the third applicant, **THIS COURT ORDERS** that:

A. Special Meeting of Fletcher Challenge Limited Shareholders

1. Fletcher Challenge Limited ("Fletcher Challenge") is directed to hold a special meeting of its shareholders ("the Shareholders Special Meeting") at the Ellerslie Convention Centre, Auckland at 2pm on Tuesday 6 March 2001 to consider and, if thought fit, to approve and adopt in the manner specified in order 2 below, two interdependent arrangements (together "the Shareholders Arrangements"), as follows:
 - (a) An arrangement ("the Energy Arrangement") between Fletcher Challenge, the holders of Fletcher Challenge Energy shares, Fletcher Challenge Industries Limited ("Fletcher Challenge Industries"), Rubicon Limited, Shell Overseas Holdings Limited, Apache Corporation and Exploration Holdings Limited, the key elements of which are described in the plan of arrangement ("the Energy Plan of Arrangement") which is annexed as schedule "A" to the originating application for final orders approving the Arrangements ("the Application for Final Orders"); and
 - (b) An arrangement ("the Building Arrangement") between Fletcher Challenge, the holders of Fletcher Challenge Building shares, Fletcher Challenge Industries, Fletcher Building Limited and Building Holdings Limited, the key elements of which are described in the plan of arrangement ("the Building Plan of Arrangement") which is annexed as schedule "B" to the Application for Final Orders.
2. The following resolutions of Fletcher Challenge shareholders voting in person, by postal vote or by proxy will be required to approve the Shareholders Arrangements:
 - (a) A special resolution approving and adopting the Energy Arrangement by the holders of the Fletcher Challenge Energy shares;
 - (b) An ordinary resolution approving and adopting the Energy Arrangement by the holders of the Fletcher Challenge Building shares and the holders of the Fletcher Challenge Forests shares voting together;
 - (c) A special resolution approving and adopting the Building Arrangement by the holders of the Fletcher Challenge Building shares; and
 - (d) An ordinary resolution approving and adopting the Building Arrangement by the holders of the Fletcher Challenge Energy shares and the holders of the Fletcher Challenge Forests shares voting together.

The Energy Arrangement and the Building Arrangement are interdependent. Therefore, both Arrangements must be approved by the resolutions prescribed in this order 2.
3. Fletcher Challenge shareholders are authorised to vote by postal vote or proxy at the Shareholders Special Meeting provided that they deliver their postal voting forms or proxy forms to the registered office of Fletcher Challenge, the office of the share registry or the office of the branch registry by 2pm on Sunday 4 March 2001. Fletcher Challenge is entitled to disregard any postal votes or proxy forms received after this deadline. However, it may in its discretion waive the time limits for the delivery of postal votes and proxies by its shareholders if it deems it to be in the best interests of Fletcher Challenge and its shareholders to do so. Fletcher Challenge is authorised, at its expense, to solicit proxies.
4. Only those holders of shares in Fletcher Challenge whose names appear in the Register of Shareholders as at 5pm on Friday 2 March 2001 will be entitled to be represented and vote at the Shareholders Special Meeting or any adjournment(s) or postponement(s) thereof.

5. Subject to the terms of these orders, the Shareholders Special Meeting will be conducted in accordance with the provisions of the Companies Act 1993 and the constitution of Fletcher Challenge.

B. Series Meetings of Fletcher Challenge Industries Limited Capital Noteholders

6. Fletcher Challenge Industries is directed to hold separate series meetings ("the Capital Noteholders Series Meetings") of the holders of each series of capital notes ("Capital Notes") issued by Fletcher Challenge Industries at the Ellerslie Convention Centre, Auckland on Monday 19 February 2001 in accordance with the following timetable:

Meeting	Starting Time
All Noteholders	9.30am
October 2001 Capital Notes	9.45am
2002 Capital Notes	9.50am
June 2003 Capital Notes	9.55am
November 2003 Capital Notes	10.00am
April 2004 Capital Notes	10.05am
Series II 2004 Capital Notes	10.10am
2005 Capital Notes	10.15am

Any adjourned meetings arising from a lack of quorum will be held at the Ellerslie Convention Centre on Monday 5 March 2001 in accordance with the same timetable. The meetings will be convened to consider and, if thought fit, approve and adopt in the manner specified in order 7 below, an arrangement ("the Capital Notes Arrangement") between Fletcher Challenge, Fletcher Challenge Industries, the holders of Capital Notes and Fletcher Building Limited, the key elements of which are described in the plan of arrangement ("the Capital Notes Plan of Arrangement") which is annexed as schedule "C" to the Application for Final Orders.

7. At the Capital Noteholders Series Meetings the Capital Notes Arrangement will be put to the holders of each series of Capital Notes for approval by way of an extraordinary resolution by a majority, voting in person or by proxy, consisting of not less than 75% of the votes cast. The Capital Notes Arrangement is conditional upon the Shareholders Arrangements proceeding to completion. However, the Shareholders Arrangements are not dependent upon the successful completion of the Capital Notes Arrangement.
8. Capital Noteholders are authorised to vote by proxy at the Capital Noteholders Series Meetings provided that their proxy forms are received by Computershare Registry Services Limited, Level 2, 159 Hurstmere Road, Takapuna, North Shore City by the times which are not later than 48 hours before the times set out in the table in Order 6 above. Proxy forms received after this deadline will be disregarded, unless Perpetual Trust Limited ("the Capital Notes Trustee") in its discretion waives the time limit for the delivery of proxies by Capital Noteholders as being in the best interests of Capital Noteholders. Fletcher Challenge is authorised, at its expense, to solicit proxies.
9. Only those holders of Capital Notes whose names appear in the Register of Capital Noteholders as at 5.00pm on Friday 16 February 2001 will be entitled to be represented and vote at the Capital Noteholders Series Meetings or any adjournment(s) or postponement(s) thereof.
10. Subject to the terms of these orders, the Capital Noteholders Series Meetings will be conducted in accordance with the provisions of the Amended and Restated Trust Deed ("the Capital Notes Trust Deed") between Fletcher Challenge, Fletcher Challenge Industries and the Capital Notes Trustee dated 24 January 2001.

C. Powers of Amendment and Adjournment

11. Fletcher Challenge is permitted to make such amendments, revisions and/or supplements to the Shareholders Arrangements and the Capital Notes Arrangement (together “the Arrangements”) as it may determine are in the best interests of Fletcher Challenge, its shareholders and the holders of Capital Notes, and the Arrangements as so amended, revised and/or supplemented will be the Arrangements to be submitted at the Shareholders Special Meeting and the Capital Noteholders Series Meetings for approval. Should Fletcher Challenge make any material amendments, revisions and/or supplements to the Arrangements after Fletcher Challenge has sent:
- (a) The Shareholders Special Meeting materials referred to in orders 13, 14 and 15 below (together “the Shareholder Special Meeting Materials”) to the persons referred to in those orders and in orders 17(a) to (c) below; and
 - (b) The Capital Noteholders Series Meetings Materials referred to in order 16 below to the persons referred to in that order and in order 17(d) below,
- it will send to those persons a supplementary memorandum by ordinary mail advising them of such amendments, revisions and/or supplements to the Arrangements.
12. The Chairman of the Shareholders Special Meeting and the Capital Noteholders Series Meetings is permitted to adjourn or postpone those meetings on one or more occasions, without the necessity of first convening those meetings or first obtaining any vote of the Fletcher Challenge shareholders or the Capital Noteholders regarding the adjournment or postponement.

D. Notice of Meetings and Application for Final Orders

13. Fletcher Challenge shall give notice of the Shareholders Special Meeting and the Application for Final Orders to the following persons:
- (a) The directors and auditors of Fletcher Challenge;
 - (b) The holders of Fletcher Challenge Energy shares at the addresses that appear on the register of shareholders of Fletcher Challenge as at 5pm on Friday 2 February 2001 being the date fixed by the Board of Directors of Fletcher Challenge for the determination of shareholders entitled to notice of the meeting pursuant to section 125 of the Companies Act 1993; and
 - (c) The holders of Fletcher Challenge Energy American Depositary Shares at the addresses that appear on the register of American Depositary Shareholders of Fletcher Challenge as at 5pm on Friday 2 February 2001 (New York time);
- by mailing, using prepaid ordinary mail, not less than 15 clear working days prior to the date of the meeting, the following materials:
- (d) A notice of the Shareholders Special Meeting and explanatory memorandum to all Fletcher Challenge shareholders which will include:
 - (i) A letter to all Fletcher Challenge Shareholders from the Chairman of the Board of Directors of Fletcher Challenge explaining and recommending support for the Shareholders Arrangements;
 - (ii) A description of the Shareholders Arrangements and a guide to the Shareholders Special Meeting Materials; and
 - (iii) A proxy / voting form and an attendance card for use by the Fletcher Challenge shareholders for the Shareholders Special Meeting;
 - (e) An information memorandum to Fletcher Challenge Energy shareholders which will include:
 - (i) A letter to Fletcher Challenge Energy shareholders from the Chairman of the Board of Directors of Fletcher Challenge explaining and recommending support for the Energy Arrangement;
 - (ii) An independent report by Grant Samuel & Associates Limited to the holders of Fletcher Challenge Energy shares;
 - (iii) The Energy Plan of Arrangement;
 - (iv) The initial orders made pursuant to this application; and

(v) The Application for Final Orders;

(f) An investment statement and prospectus for Rubicon Limited; and

(g) An information memorandum relating to the entitlements to acquire shares in Capstone Turbine Corporation.

(collectively referred to as the “Energy Special Meeting Materials”) in substantially the forms referred and annexed to the affidavits of Dr Roderick Sheldon Deane, Michael John Lorimer and Martin Clive Farrell sworn and filed herein, with such amendments, revisions and/or supplements as counsel may advise are necessary or desirable (provided that such amendments, revisions and/or supplements are not inconsistent with the terms of this order).

14. Fletcher Challenge shall give notice of the Shareholders Special Meeting and the Application for Final Orders to the following persons:

(a) The directors and auditors of Fletcher Challenge;

(b) The holders of Fletcher Challenge Building shares at the addresses that appear on the register of shareholders of Fletcher Challenge as at 5pm on Friday 2 February 2001 being the date fixed by the Board of Directors of Fletcher Challenge for the determination of shareholders entitled to notice of the meeting pursuant to section 125 of the Companies Act 1993; and

(c) The holders of Fletcher Challenge Building American Depositary Shares at the addresses that appear on the register of American Depositary Shareholders of Fletcher Challenge as at 5pm on Friday 2 February 2001 (New York time);

by mailing, using prepaid ordinary mail, not less than 15 clear working days prior to the date of the meeting, the following materials:

(d) A notice of the Shareholders Special Meeting and explanatory memorandum to all Fletcher Challenge shareholders which will include:

- (i) A letter to all Fletcher Challenge Shareholders from the Chairman of the Board of Directors of Fletcher Challenge explaining and recommending support for the Shareholders Arrangements;
- (ii) A description of the Shareholders Arrangements and a guide to the Shareholders Special Meeting Materials; and
- (iii) A proxy / voting form and an attendance card for use by the Fletcher Challenge shareholders for the Shareholders Special Meeting;

(e) An information memorandum to Fletcher Challenge Building shareholders which will include:

- (i) A letter to Fletcher Challenge Building shareholders from the Chairman of the Board of Directors of Fletcher Challenge explaining and recommending support for the Building Arrangement;
- (ii) An investment statement and prospectus for Fletcher Building Limited;
- (iii) An independent report by Grant Samuel & Associates Limited to the holders of Fletcher Challenge Building shares;
- (iv) The Building Plan of Arrangement;
- (v) The initial orders made pursuant to this application; and
- (vi) The Application for Final Orders,

(collectively referred to as the “Building Special Meeting Materials”) in substantially the forms referred and annexed to the affidavits of Dr Roderick Sheldon Deane and Michael John Lorimer sworn and filed herein, with such amendments, revisions and/or supplements as counsel may advise are necessary or desirable (provided that such amendments, revisions and/or supplements are not inconsistent with the terms of this order).

15. Fletcher Challenge shall give notice of the Shareholders Special Meeting and the Application for Final Orders to the following persons:

(a) The directors and auditors of Fletcher Challenge;

ANNEXURE H: Form of Initial High Court Orders *continued*

- (b) The holders of Fletcher Challenge Forests shares at the addresses that appear on the register of shareholders of Fletcher Challenge as at 5pm on Friday 2 February 2001 being the date fixed by the Board of Directors of Fletcher Challenge for the determination of shareholders entitled to notice of the meeting pursuant to section 125 of the Companies Act 1993; and
- (c) The holders of Fletcher Challenge Forests American Depositary Shares at the addresses that appear on the register of American Depositary Shareholders of Fletcher Challenge as at 5pm on Friday 2 February 2001, (New York time).

by mailing, using prepaid ordinary mail, not less than 15 clear working days prior to the date of the meeting, the following materials:

- (d) A notice of the Shareholders Special Meeting and explanatory memorandum to all Fletcher Challenge shareholders which will include:
 - (i) A letter to all Fletcher Challenge Shareholders from the Chairman of the Board of Directors of Fletcher Challenge; explaining and recommending support for the Shareholders Arrangements;
 - (ii) A description of the Shareholders Arrangements and a guide to the Shareholders Special Meeting Materials; and
 - (iii) A proxy / voting form and an attendance card for use by the Fletcher Challenge shareholders for the Shareholders Special Meeting;
- (e) An information memorandum to Fletcher Challenge Forests shareholders which will include:
 - (i) A letter to Fletcher Challenge Forests shareholders from the Chairman of the Board of Directors of Fletcher Challenge;
 - (ii) An independent report by Grant Samuel & Associates Limited to the holders of Fletcher Challenge Forests shares;
 - (iii) The initial orders made pursuant to this application; and
 - (iv) The Application for Final Orders,

(collectively referred to as the "Forests Special Meeting Materials") in substantially the forms referred and annexed to the affidavits of Dr Roderick Sheldon Deane and Michael John Lorimer sworn and filed herein, with such amendments, revisions and/or supplements as counsel may advise are necessary or desirable (provided that such amendments, revisions and/or supplements are not inconsistent with the terms of this order).

16. Fletcher Challenge and Fletcher Challenge Industries will give notice of the Capital Noteholders Series Meetings and the Application for Final Orders to the following persons:

- (a) The directors and auditors of Fletcher Challenge;
- (b) The Capital Notes Trustee; and
- (c) The holders of Capital Notes at the addresses that appear on the Register of Capital Noteholders of Fletcher Challenge and Fletcher Challenge Industries as at 5pm on Wednesday 17 January 2001 being the date fixed for the determination of Capital Noteholders entitled to notice of the Capital Noteholders Series Meetings pursuant to clause 2 of schedule 3 to the Capital Notes Trust Deed,

by mailing, using prepaid ordinary mail, not less than 14 days (excluding the day on which notice is given and including the day on which the Capital Noteholders Series Meetings are to be held) prior to the date of the meetings, the following materials:

- (d) A notice of the Capital Noteholders Series Meetings and Information Memorandum to all Capital Noteholders which will be accompanied by:
 - (i) A letter to all Capital Noteholders from the Chairman of the Board of Directors of Fletcher Challenge explaining and recommending support for the Capital Notes Arrangement;
 - (ii) An independent report by Grant Samuel & Associates Limited to Capital Noteholders;

- (iii) A proxy/voting form and attendance card for the use by Capital Noteholders for the Capital Noteholders Series Meetings;
- (iv) The form of the Initial Orders made pursuant to this Application; and
- (v) The form of the Application for Final Orders.

(collectively referred to as “the Capital Noteholders Series Meetings Materials”) in substantially the forms referred and annexed to the affidavits of Dr Roderick Sheldon Deane and Michael John Lorimer sworn and filed herein, with such amendments, revisions and/or supplements as counsel may advise unnecessary or desirable (provided that such amendments, revisions and/or supplements are not inconsistent with the terms of this order).

17. Fletcher Challenge will on request:

- (a) Provide a copy of the Energy Special Meeting Materials on request to any person who is registered as a holder of Fletcher Challenge Energy shares or Fletcher Challenge Energy American Depositary Shares after 5pm on Friday 2 February 2001 and before 5pm on Friday 2 March 2001;
- (b) Provide a copy of the Building Special Meeting Materials on request to any person who is registered as a holder of Fletcher Challenge Building shares or Fletcher Challenge Building American Depositary Shares after 5pm on Friday 2 February 2001 and before 5pm on Friday 2 March 2001;
- (c) Provide a copy of the Forests Special Meeting Materials on request to any person who is registered as a holder of Fletcher Challenge Forests shares or Fletcher Challenge Forests American Depositary Shares after 5pm on Friday 2 February 2001 and before 5pm on Friday 2 March 2001; and
- (d) Provide a copy of the Capital Noteholders Series Meetings Materials on request to any person who is registered as a holder of Capital Notes after 5pm on Wednesday 17 January 2001 and before 5pm on Friday 16 February 2001.

18. Notice of the Shareholders Special Meeting and the Application for Final Orders will be advertised substantially in the form annexed to the first affidavit of Dr Roderick Sheldon Deane sworn and filed herein in one edition of each of the following newspapers at least 10 clear working days and no more than 20 clear working days before the Shareholders Special Meeting:

- (a) The New Zealand Herald;
- (b) The Australian Financial Review; and
- (c) The New York Times.

19. Notice of the Capital Noteholders Series Meetings and the Application for Final Orders will be advertised substantially in the form annexed to the first affidavit of Dr Roderick Sheldon Deane sworn and filed herein in one edition of the New Zealand Herald at least 10 clear working days and no more than 20 clear working days before the Capital Noteholders Series Meetings.

20. The Shareholders Special Meeting Materials, the Capital Noteholders Series Meetings Materials and the Application for Final Orders, shall be deemed to have been received by the directors, auditors and holders of Fletcher Challenge shares, Fletcher Challenge American Depositary Shares and Capital Notes two working days after mailing.

21. Fletcher Challenge is granted leave to give notice of the Application for Final Orders to persons outside the jurisdiction of this Court in the manner prescribed in orders 13 to 20 above.

22. The accidental failure or omission by Fletcher Challenge to give the Shareholders Special Meeting Materials and the Capital Noteholders Series Meetings Materials to the persons specified in orders 13 to 17 above or the non-receipt of such documents by such persons will not constitute a breach of the orders nor invalidate any resolution passed or proceedings taken at the Shareholders Special Meeting or the Capital Noteholders Series Meetings, but if any such failure or omission is brought to the attention of Fletcher Challenge, then it shall use its best endeavours to rectify it by the method and in the time most reasonably practicable in the circumstances.

E. Reporting of results of Meetings

23. The Chairman of the Shareholders Special Meeting or the Company Secretary of Fletcher Challenge shall, prior to hearing of the Application for Final Orders, file with this Court an affidavit verifying the actions taken and the resolutions passed by the Fletcher Challenge shareholders at that meeting.
24. The Chairman of the Capital Noteholders Series Meetings or the Company Secretary of Fletcher Challenge shall, prior to the hearing of the Application for Final Orders, file with this Court an affidavit verifying the actions taken and the resolutions passed by the Capital Noteholders at those meetings.
25. Unless the directors of Fletcher Challenge determine to abandon the Arrangements, then subject to order 30 below, the Application for Final Orders will be heard before the presiding Judge at 10am on Thursday 15 March 2001.

F. Shareholder and Capital Noteholders Rights of Opposition

26. Any holder of Fletcher Challenge shares, Fletcher Challenge American Depositary Shares, Capital Notes or options to acquire Fletcher Challenge shares who wishes to appear and be heard on the Application for Final Orders must file a notice of appearance or a notice of opposition (both containing an address for service in Auckland, New Zealand) and, if they oppose the Application, any affidavits and a memorandum of submissions on which such holder intends to rely by 5pm on Tuesday 13 March 2001 and serve a copy on Fletcher Challenge's address for service. Within 1 working day of receiving a notice of opposition from an opposing holder, Fletcher Challenge will serve upon that holder at that holder's address for service a copy of the affidavits in support of the Application for Final Orders.
27. The only persons entitled to appear and be heard at the hearing of the Application for Final Orders will be:
- (a) The applicants;
 - (b) Shell Overseas Holdings Limited;
 - (c) Those holders of Fletcher Challenge shares, Fletcher Challenge American Depositary Shares, Capital Notes or options to acquire Fletcher Challenge shares who file a notice of appearance or a notice of opposition to the Application for Final Orders in accordance with order 26 above; and
 - (d) The Capital Notes Trustee.
28. If the hearing of the Application for Final Orders approving the Arrangement is adjourned, only those persons who have filed and served a notice of appearance or a notice of opposition in accordance with order 26 above need be served with notice of the adjourned date.
29. Except as provided in orders 13 to 17 and 26 above, Fletcher Challenge is not required to serve upon any of the persons specified in orders 13 to 17 and 26 above any other documents.
30. Fletcher Challenge is granted leave to apply at short notice to vary these orders and apply for such further orders as may be appropriate.

BY THE COURT

.....
(Deputy) Registrar

Sealed this day of 2000

ANNEXURE I: Form of Amended Originating Application for Final Court Orders and its Schedule C

**In the High Court of New Zealand
Auckland Registry**

M No. 1719-AS/00

In the matter of an Arrangement under Part XV of the Companies Act 1993

between

Fletcher Challenge Limited, a duly incorporated company having its registered office at Auckland and carrying on business as a holding company

First Applicant

and

Fletcher Challenge Industries Limited, a duly incorporated company having its registered office at Auckland

Second Applicant

and

Exploration Holdings Limited, a duly incorporated company having its registered office at Auckland

Third Applicant

and

Building Holdings Limited, a duly incorporated company having its registered office at Auckland

Fourth Applicant

and

Fletcher Building Limited, a duly incorporated company having its registered office at Auckland

Fifth Applicant

**Amended Originating application for orders approving an Arrangement under Part XV
of the Companies Act 1993**

30 January 2001

**ANNEXURE I: Form of Amended Originating Application
for Final Court Orders and its Schedule C *continued***

TAKE NOTICE that on Thursday the 15th day of March 2001 at 10am or as soon thereafter as counsel may be heard the applicants will move the Court **FOR ORDERS**:

1. That the following arrangements ("the Arrangements") are approved and are binding upon the applicants, the holders of Fletcher Challenge Limited shares and the holders of each series of Fletcher Challenge Industries Limited Capital Notes, with effect from 10am on Friday 23 March 2001, subject to the satisfaction, waiver or release of the terms and conditions of the Arrangements prescribed in the Arrangement Agreements annexed as exhibits "A", "B" and "C" to the first affidavit of Dr Roderick Sheldon Deane:
 - (a) An arrangement ("the Energy Arrangement") between Fletcher Challenge Limited, the holders of Fletcher Challenge Energy shares, Fletcher Challenge Industries Limited, Rubicon Limited, Shell Overseas Holdings Limited, Apache Corporation and Exploration Holdings Limited, the key elements of which are described in the plan of arrangement ("the Energy Plan of Arrangement") which is annexed as schedule "A" to this application; and
 - (b) An arrangement ("the Building Arrangement") between Fletcher Challenge Limited, the holders of Fletcher Challenge Building shares, Fletcher Challenge Industries Limited, Fletcher Building Limited and Building Holdings Limited, the key elements of which are described in the plan of arrangement ("the Building Plan of Arrangement") which is annexed as schedule "B" to this application.
 - (c) An arrangement ("the Capital Notes Arrangement") between Fletcher Challenge Limited, Fletcher Challenge Industries Limited the holders of Fletcher Challenge Industries Limited Capital Notes and Fletcher Building Limited, the key elements of which are described in the plan of arrangement ("the Capital Notes Plan of Arrangement") which is annexed as schedule "C" to this Application.
2. That on the implementation of the Arrangements, Exploration Holdings Limited and Building Holdings Limited will be amalgamated into Fletcher Challenge Limited which will continue as Fletcher Challenge Limited under the Companies Act 1993 with the effect set out in Appendix A to the Energy Plan of Arrangement and Appendix A to the Building Plan of Arrangement.
3. Declaring that:
 - (a) The terms and conditions of the Energy Arrangement are fair to the holders of Fletcher Challenge shares, including in particular the holders of Fletcher Challenge Energy shares;
 - (b) The terms and conditions of the Building Arrangement are fair to the holders of Fletcher Challenge shares, including in particular the holders of Fletcher Challenge Building shares; and
 - (c) The terms and conditions of the Capital Notes Arrangement are fair to the holders of Fletcher Challenge Industries Limited Capital Notes.
4. That the applicants are granted leave to apply to the Court at short notice to extend the time and date by which orders 1. and 2. will take effect.

UPON THE GROUNDS that:

- (a) Section 236(1) of the Companies Act 1993 provides the Court with power to make orders that the Arrangements are binding on the applicants, the holders of Fletcher Challenge Limited shares, the holders of Fletcher Challenge Industries Limited Capital Notes and on such other persons as the Court may specify and upon such terms and conditions as the Court thinks fit.
- (b) Section 237(1) of the Act provides the Court with the power to make additional orders to give effect to the Arrangements.
- (c) By the date on which this application is determined Fletcher Challenge Limited will have complied with the initial orders made by this Court and the requirements of Part XV of the Companies Act 1993.
- (d) The terms upon which the holders of Fletcher Challenge Energy shares will sell their shares under the Energy Arrangement are fair and reasonable.
- (e) The terms upon which the holders of Fletcher Challenge Building shares will sell their shares under the Building Arrangement are fair and reasonable.
- (f) The terms upon which the Fletcher Challenge Industries Limited Capital Notes will be novated, amended and redeemed are fair and reasonable.
- (g) The Arrangements are fair and reasonable to all holders of Fletcher Challenge shares and Fletcher Challenge Industries Limited Capital Notes.
- (h) The Arrangements are such that an intelligent and honest person of business acting in respect of his or her own interest would reasonably approve them.
- (i) The Arrangements are in the best interests of the shareholders of Fletcher Challenge.
- (j) The Arrangements will not adversely affect the interests of creditors of Fletcher Challenge.
- (k) Appear in the affidavits of Dr Roderick Sheldon Deane and Michael John Lorimer filed in support of this application.
- (l) Appear in the memoranda of counsel filed in support of the ex parte application for initial orders and in support of this application.

This application is made in reliance on Part XV of the Companies Act 1993 and upon Rule 4 and Part IVA of the High Court Rules.

Dated at Auckland on 30 January 2001

R G Simpson
Solicitor for the First, Second, Fourth and Fifth Applicants

To: The Registrar of the High Court at Auckland
And To: The Parties entitled to be served with this application

ANNEXURE I: Form of Amended Originating Application for Final Court Orders and its Schedule C *continued*

Schedule C: Plan of Arrangement under Section 236 of the Companies Act 1993

1. Interpretation

1.1 Definitions

In this Plan of Arrangement, unless the context otherwise requires, words and expressions defined or construed in the Trust Deed and not otherwise defined or construed in this Plan of Arrangement have the same meanings or constructions when used in this Deed and in addition:

Act means the Companies Act 1993, as amended;

Approved Series means a series of Capital Notes, the holders of which have passed an Extraordinary Resolution at a Series Meeting of such holders;

business day means any day other than a Saturday, Sunday, a public holiday in New Zealand or a day on which banks are not open for business in Auckland, New Zealand;

Capital Notes Arrangement means the arrangement described in the Plan of Arrangement, subject to any amendment or variation made in accordance with it;

Court means the High Court of New Zealand;

Effective Date means the date on or before 15 March 2001, or such later date as Fletcher Challenge, FCIL and Fletcher Building may determine pursuant to the Arrangement Deed, on which the Capital Notes Arrangement becomes effective in accordance with the Act and the final order of the Court in respect of the Capital Notes Arrangement;

Extraordinary Resolution means a resolution of the holders of a Series of Capital Notes passed at the relevant Series Meeting by a majority of such holders consisting of not less than 75% of the votes cast on a poll and the Interim Court Orders;

Final Order means the final order of the Court approving the transactions contemplated in the Plan of Arrangement that the Court has jurisdiction to approve;

Interim Court Orders means the interim orders of the High Court of New Zealand in respect of (among other things) the Capital Notes Arrangement providing for (among other things) the calling and holding of the Series Meetings;

March 2001 Capital Notes means the Capital Notes which have an Election Date of 15 March 2001;

Materially Adverse means, with respect to the Capital Notes Arrangement, a fact, circumstance, event or term that can reasonably be expected to materially and adversely affect the expected outcome of the Capital Notes Arrangement;

New 2006 Fletcher Building Capital Note Offer means the offer of New 2006 Fletcher Building Capital Notes to be made by Fletcher Building as described in clause 2 of this Deed;

New 2006 Fletcher Building Capital Notes means the new Capital Notes to be offered by Fletcher Building having a first Election Date of 15 March 2006, the Conditions of which are set out in the relevant Supplemental Deed;

Novated Capital Notes means 35% of the Capital Notes of an Approved Series the rights and obligations of FCIL and Fletcher Challenge under which are to be assumed by novation by Fletcher Building pursuant the Plan of Arrangement;

Registrar means Computershare Registry Services Limited;

Separation Date means the date on which the Separation Arrangement is implemented;

Separation Arrangement means the arrangement involving, amongst other things, the separation of the assets and liabilities of the Building Division of the Fletcher Challenge Group to be undertaken pursuant to section 236 of the Companies Act;

Series means Capital Notes having the same Election Date; and

Series Meeting means a meeting of the holders of a Series of Capital Notes duly convened and held in accordance with the Interim Court Orders and the applicable provisions of the Trust Deed, and includes any adjournment of such a meeting.

1.2 Construction of certain references

In this Deed, unless the context otherwise requires, words and expressions defined or construed in the Trust Deed and not otherwise defined or construed in this Deed have the same meanings or construction when used in this Deed, and any reference to:

an **agreement** also includes a contract, deed, licence, franchise, undertaking and other document (in each case, oral and written) and includes that agreement as modified, supplemented, novated or substituted from time to time;

a **consent** also includes an approval, authorisation, exemption, filing, licence, order, permit, recording and registration (and references to obtaining consents are to be construed accordingly);

a **person** includes an individual, body corporate, an association of persons (whether corporate or not), a trust and a state and agency of a state (in each case, whether or not having separate legal personality);

rights includes authorities, discretions, remedies, powers and things in action;

a gender includes each other gender;

the singular includes the plural and vice versa; and

a party to this Deed or another agreement includes its successors and assignees.

Headings and the table of contents are to be ignored in construing this Deed.

1.3 Time

Time is of the essence in each and every matter or thing provided in this Plan of Arrangement. Unless otherwise indicated, all times expressed in this Plan of Arrangement are local time, Auckland, New Zealand.

ANNEXURE I: Form of Amended Originating Application for Final Court Orders and its Schedule C *continued*

2. Pre-completion Transactions

2.1 Offer of New 2006 Fletcher Building Capital Notes

Fletcher Building will, on or about 1 February 2001, offer, under a Prospectus and Investment Statement to be included in the Information Memorandum, New 2006 Fletcher Building Capital Notes to the holders of the March 2001 Capital Notes on the terms described in the Information Memorandum.

2.2 Redemption of March 2001 Capital Notes

FCIL will:

- (a) in accordance with the Conditions thereof, redeem the March 2001 Capital Notes on 15 March 2001; and
- (b) in accordance with the Information Memorandum, retain (on trust for the relevant holders) the redemption amounts payable to the holders of the March 2001 Capital Notes whose applications for New 2006 Fletcher Building Capital Notes have been accepted and, in due course:
 - (i) apply the appropriate part of such redemption amount in subscribing for the relevant amount of New 2006 Fletcher Building Capital Notes; and
 - (ii) pay the balance to the relevant holder of March 2001 Capital Notes.

2.3 Amended and Restated Trust Deed

Fletcher Challenge, FCIL, Fletcher Building and the Trustee will enter into an amendment and restatement of the Trust Deed not later than the date the Information Memorandum is despatched to Noteholders, such amendment and restatement to, amongst other things, evidence an increase in the Interest Rates table on the Novated Capital Notes of 0.50 per cent per annum from the Effective Date and to be in such form as the parties agree is appropriate to take account of the Capital Notes Arrangement.

2.4 2006 Capital Notes Supplemental Deed

Fletcher Building and the Trustee will enter into a deed supplemental to and in the form prescribed by the Trust Deed in respect of the New 2006 Fletcher Building Capital Notes not later than the date of the Information Memorandum is despatched to Noteholders.

3. The Arrangement process

Subject to the terms and conditions of this Plan of Arrangement:

- (a) Fletcher Challenge will apply to the Court under section 236 of the Act for the Interim Order;
- (b) provided the Interim Order has been obtained, Fletcher Challenge will call and hold the Series Meetings as soon as reasonably practicable after the Interim Order has been obtained;
- (c) Fletcher Challenge will, in consultation with the Trustee, prepare and distribute the Information Memorandum and such other documents as may be necessary or desirable to permit the Noteholders to vote on the Capital Notes Arrangement;
- (d) provided the Arrangement is approved at the Series Meeting as set out in the Interim Order, as soon as reasonably practicable after the Series Meeting, Fletcher Challenge will take the necessary steps to submit the Arrangement to the Court and apply for the Final Order in such manner as the Court may direct; and
- (e) provided the Final Order is obtained, as soon as reasonably practicable after the Final Order is granted, Fletcher Challenge and each Counterparty will take all action required of it to implement the Arrangement in accordance with the Final Order.

4. Purchase of Capital Notes

FCIL will redeem all the Capital Notes of each Approved Series, other than the Novated Capital Notes of such Approved Series, and the Capital Notes of all Noteholders whose holding of Capital Notes is less than \$5,000, for cash on or within 5 days of the Effective Date in accordance with the Information Memorandum.

5. Novation of Capital Notes

With effect from the Effective Date:

- (a) Each of FCIL and FCL will novate, transfer and assign to Fletcher Building all of its covenants, rights, obligations and liabilities contained in, or relating to, the Trust Deed or otherwise in respect of the Novated Capital Notes;
- (b) Fletcher Building agrees to the above novation, transfer and assignment and agrees to observe, perform and be bound by the covenants, obligations and liabilities imposed on each of FCIL and FCL in, or relating to, the Trust Deed or otherwise in respect of the Novated Capital Notes as if it were originally a party to the Trust Deed;
- (c) Perpetual, on behalf of the Capital Noteholders, agrees and consents to the above novation, transfer and assignment and agrees to release each of FCIL and FCL from any liabilities it may have, or claims it may be subject to, in connection with the Trust Deed or otherwise in respect of the Novated Capital Notes with regard to the period after the Effective Date, but without releasing either of FCIL or FCL from any such liability it may have, or claims it may be subject to, in respect of the period prior to the Effective Date; and
- (d) Each of FCIL and FCL agrees to release Perpetual from any obligations it may have to either of FCIL or FCL in connection with the Trust Deed or otherwise in respect of the Novated Capital Notes in respect of the period after the Effective Date.

6. Note Register

- (a) On the Friday immediately prior to the Effective Date, the Register of the Capital Notes will be closed.
- (b) The Capital Notes Arrangement will be implemented in respect of the Capital Notes of every Approved Series and in respect of each Noteholder whose name is entered on the Register as a holder of such Capital Notes on the Effective Date.
- (c) As soon as practicable following the Effective Date, but in no event later than 5 business days after that date:
 - (i) Fletcher Building will cause the Registrar to forward, or cause to be forwarded, by mail to the Noteholders whose names were entered on the Register of Capital Notes as referred to in clause 6(b) at the address specified in the Register of Capital Notes (or to such other person, at such address, as such Noteholders may direct) a statement confirming their holding of Capital Notes of Fletcher Building; and
 - (ii) FCIL will cause the Registrar to forward, or cause to be forwarded, by mail to each of those Noteholders a cheque for the redemption amount payable to such Noteholder in accordance with the Capital Notes Arrangement or to direct credit to any bank account nominated in writing by such Noteholder, which nomination has been received by the Registrar in sufficient time to process the nomination prior to the date for payment.

7. Amendment of Plan of Arrangement

- (a) Fletcher Challenge, FCIL and Fletcher Building reserve the right to amend, modify and/or supplement this Plan of Arrangement at any time and from time to time (which includes, where necessary, the inclusion of dissent rights), provided that any such amendment, modification or supplement must be contained in a written document which is filed with the Court and, if made following any Series Meeting, approved by the Court and communicated to Noteholders in the manner required by the Court (if so required).
- (b) Any amendment, modification or supplement to this Plan of Arrangement may be proposed by Fletcher Challenge, FCIL and/or Fletcher Building at any time prior to or at any Series Meeting with or without any other prior notice or communication and, if so proposed and accepted by Extraordinary Resolution of the persons voting at the Series Meeting, will become part of this Plan of Arrangement for all purposes.
- (c) Any amendment, modification or supplement to this Plan of Arrangement which is approved or directed by the Court following any Series Meeting will be effective only if it is consented to by Fletcher Challenge, FCIL and Fletcher Building.

**ANNEXURE I: Form of Amended Originating Application
for Final Court Orders and its Schedule C *continued***

8. Conditions

The respective obligations of Fletcher Challenge, FCIL, Fletcher Building and the Trustee to complete the transactions contemplated by clauses 4 and 5 of this Plan of Arrangement are subject to the fulfilment, or the waiver by each of Fletcher Challenge, FCIL and Fletcher Building, of each of the following conditions at or prior to the Effective Date:

- (a) the Interim Court Orders will have been obtained in form and substance satisfactory to each of them, acting reasonably;
- (b) the transactions contemplated by this Deed, with or without amendment, will have been approved at at least one Series Meeting in accordance with the Interim Order;
- (c) the Final Order will have been obtained in form and substance satisfactory to each of them, acting reasonably;
- (d) all applicable waiting periods will have expired without any action being taken or threatened by any competent authority which would restrain or prevent the Capital Notes Arrangement or otherwise impose conditions that are materially adverse to the completion of the Capital Notes Arrangement;
- (e) no judgement or order will have been issued by any of any competent authority and no law shall have been proposed, enacted, promulgated or applied to prohibit or impose material limitations or conditions on or to the completion of the Capital Notes Arrangement; or
- (f) completion of the transactions contemplated by the Separation Arrangement.

Cautionary statement regarding forward-looking statements

This Information Memorandum contains certain “forward-looking statements”. These forward-looking statements are based on certain assumptions and analyses made by Fletcher Challenge, FCIL and Fletcher Building in the light of their experience and their perception of historical trends, current conditions and expected future developments as well as other factors they believe are relevant in the circumstances. However, whether actual future results and developments will conform to their expectations and predictions is subject to a number of risks and uncertainties, including the significant considerations discussed in this Information Memorandum, and particularly the “What are my risks?” and “Risks relating to the industry and the business of Fletcher Building” sections beginning on pages 97 and 100 respectively of this Information Memorandum. Factors that could cause actual results to differ materially from those implied by the forward-looking statements include, but are not limited to: increases or decreases in Australasian production capacity; changes in market prices; changes in exchange rates; changes in interest rates; imports; changes in immigration levels; industry cyclicality; cost of raw materials; general economic, market and business conditions; the opportunities (or lack thereof) that may be presented to and pursued by Fletcher Building and its subsidiaries; competitive actions by other companies; changes in laws or regulations, including, without limitation, those relating to environmental compliance; and other factors, many of which are beyond the control of Fletcher Building and its subsidiaries. Consequently, all of the forward-looking statements made in this Information Memorandum are qualified by these cautionary statements and there can be no assurance that the actual results or developments anticipated by Fletcher Challenge, FCIL or Fletcher Building will be realised or, even if substantially realised, that they will have the expected consequences for, or effects on, Fletcher Building, its subsidiaries or their respective businesses or operations.

These cautionary statements should be considered in connection with any written or oral forward-looking statements that may subsequently be issued by Fletcher Challenge, FCIL or Fletcher Building or persons authorised to act on their behalf in connection with the Capital Notes Arrangement.

Neither Fletcher Challenge, FCIL nor Fletcher Building undertakes any obligation to release publicly any revisions to any forward-looking statements to reflect events or circumstances after the date of this Information Memorandum or to reflect the occurrence of unanticipated events.

Directory

Registered Office of Fletcher Building Limited	583 Great South Road Penrose Auckland	
Auditors of Fletcher Building Limited	KPMG KPMG Centre 9 Princes Street Auckland	
Auditors of Fletcher Challenge Limited	PricewaterhouseCoopers 23-29 Albert Street Auckland	KPMG KPMG Centre 9 Princes Street Auckland
Securities Registrar, Issuing and Paying Agent	Computershare Registry Services Limited Level 2 159 Hurstmere Road Takapuna North Shore City	
Solicitors to Fletcher Building Limited, Fletcher Challenge Limited and Fletcher Challenge Industries Limited	Bell Gully Royal & SunAlliance Centre 48 Shortland Street Auckland	
Organising Broker	Credit Suisse First Boston NZ Securities Limited 282-292 Lambton Quay Wellington 23-29 Albert Street Auckland Freephone: 0800 822-022 Telephone: 04-474 4400 (Wellington) 09-302 5500 (Auckland)	
The Trustee	Perpetual Trust Limited Level 3 Perpetual Trust House 125 Albert Street Auckland	
Solicitors to the Trustee	Buddle Findlay Level 6, Tower 1 51-53 Shortland Street Auckland	
Independent Advisers to the Noteholders	Grant Samuel & Associates Limited Level 12 National Bank Centre 209 Queen Street Auckland	