





THE FLETCHER

FLETCHER CHALLENGE FORESTS BLENDS EXPERIENCE, INVESTMENT

CHALLENGE

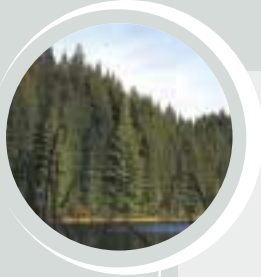
AND AGGRESSIVE MARKET AND PRODUCT DEVELOPMENT TO

FORESTS WAY

MEET A GLOBAL DEMAND FOR QUALITY WOOD PRODUCTS.

The company's strategy is built on:

- Ownership of, and access to, world class sustainable plantation forests, which are managed to internationally recognised environmental standards.
- First class processing and operational infrastructure to deliver product competitively to a range of global markets.
- Global market strategies based on partnerships, long term relationships, and customer specific products.
- A strong capital base and management structure to underpin operations and expansion.
- Maximising shareholder value.



Fletcher Challenge Forests achieved a strong turnaround in operating performance. Earnings before interest and tax (EBIT) prior to unusual items were \$136 million, or 4.9 cents per share, including a forest crop revaluation of \$53 million.

The Company recorded a net loss of \$249 million. This reflected a \$324 million after tax final write-down in relation to the CNIFP. Net profit prior to unusuals was \$75 million, or 2.7 cents per share.

DURING

China clearly established itself as the growth market for wood demand in Asia. Total managed log sales to China grew by 95 per cent.



Strong demand from the home improvement sector in the United States boosted revenue for the North American Consumer Solutions business unit by 34 per cent.



The Australasian Consumer Solutions business unit sales grew 13 per cent. There was continued growth in demand for Origin™ branded products.

The Company retained Forest Stewardship Council (FSC) environmental accreditation for its managed forest estate, following a rigorous re-certification process.



THE YEAR

The Company further improved its financial position. Contributing factors were a strong cash flow, a significant reduction in net debt, and an increase in the market based forest valuation.

The CNIFP acquisition proposal that was put to shareholders in August 2002 did not achieve the required 75 per cent majority vote.





CHAIRMAN'S LETTER

CHAIRMAN

On behalf of the Board

This annual report represents a milestone for Fletcher Challenge Forests. It presents the results of our first full year as a stand alone company and it demonstrates a strong turnaround in operating and financial performance.

It has taken eighteen months of hard and intensive work. Now the Company has transparent accounts, a strong balance sheet, debt levels which allow genuine financial flexibility, solid cash flow and a positive market outlook.

This achievement is very satisfying to your Board and is a tribute to the efforts of all our staff.

Earnings before interest and tax (EBIT) prior to unusual items for the year were \$136 million, or 4.9 cents per share, including a forest crop revaluation of \$53 million and an unrealised foreign exchange gain of \$25 million. Excluding the crop revaluation, EBIT before unusual items was \$83 million, an increase of \$66 million over the \$17 million EBIT last year, on a comparable basis. Other points of note were as follows:

- EBIT of \$136 million represents a return on Capital Employed of 9.6%.
- EBIT before unusual items in the second half of the financial year grew strongly to \$93 million, compared to \$43 million in the first 6 months.
- EBIT from our highly successful North American operations grew by 136%.
- Cash flow from operations before working capital for the year was strong at \$56 million. This compares with negative cash flow of \$2 million last year on a comparable basis.
- Net debt reduced by \$76 million, to what is now a comfortable level of \$247 million.
- Net profit after tax prior to unusuals was \$75 million, or 2.7 cents per share, which represents a very significant turnaround of \$128 million against the loss of \$53 million last year on a comparable basis.
- Net tangible assets per share rose from 39.3 cents in December 2001, to 41 cents.

There was a net loss for the year of \$249 million after writing off \$324 million after tax, being the remaining debt owed to Fletcher Challenge Forests by the Central North Island Forest Partnership (CNIFP).

EBIT of \$136 million represents a return on capital employed of 9.6%. This is a significant improvement, but still below what is acceptable and achievable. Your Board is committed to further substantial improvement in the Company's return on capital in the medium term.

Cash flow from operations has improved significantly. This reflects the improving operational performance and the impact of the aggressive cost reduction drive that has been conducted right through the business. We have confidence that this position can be maintained.

Working capital has been very well managed. At 7% of sales it represents world class performance.

No dividend has been declared in respect of the 2002 year, as debt reduction has been our first priority. The strength of cash flow and our improved debt position will allow your Board to consider some initiatives in capital management over the coming year.

While operational and financial performance is positive, the Company still faces some important strategic issues associated with the industry.

In particular, there is continued uncertainty over the future ownership of the CNIFP.

The acquisition and recapitalisation proposal we placed before you in August did not in the end receive the necessary 75% majority vote and thus did not proceed. While we will continue to evaluate any opportunities in relation to the assets of the CNIFP as they may arise in the future, our primary focus will be on continuing to improve the operating performance of the Company, to drive increased shareholder value.

We will also continue to pursue initiatives to consolidate and improve the effectiveness of the New Zealand forestry industry's export marketing.

If the full potential of our country's maturing forests is to be realised, then the industry as a whole must continue to explore means by which

it can achieve global scale and global market access, reduce supply chain costs and avoid "New Zealand on New Zealand" competition in export markets. The potential benefit from intelligent marketing and sensible cooperation within the New Zealand forestry industry is considerable.

This will demand that the industry has the capacity to invest more in repositioning Radiata pine as a wood product of choice, and marketing it with greater sophistication to a wider range of consumers and markets, particularly in fast developing Asian regions.

We have already done a considerable amount of work towards those objectives. India is an example of a market where wider industry cooperation and the sharing of resources has shown positive results.

We will continue to pursue these objectives with vigour.

We go into the new financial year with a strong balance sheet, and with operations performing well across all markets. Pricing and demand is encouraging and the Company is now starting to realise the benefits of the maturing harvest profile of our forest estate. Our annual harvest output will increase by 45% over the next six to seven years.

Provided our markets remain strong we expect to see a further improvement in the operating result in the current year, subject to foreign exchange impacts or other unexpected events.



Sir Dryden Spring
Chairman





CHIEF EXECUTIVE'S LETTER

CE

This year's financial results represent a significant turnaround in the performance of our business. Most importantly, those results have been built on the sustainable strength of our operations, on the quality of our forests, on our cost efficiency, and on our market and product development. With the strong financial base now established, management is committed to delivering further improvements in operating earnings.

Forest and Logs

In the Forest and Logs business unit, EBIT before unusual items was \$37 million, excluding the forest crop valuation, compared to \$6 million the previous year on a comparable basis.

The key contributors in that improvement were:

- Strong domestic log markets in New Zealand, supported by a buoyant construction sector.
- A steady improvement in both demand and prices in our largest log export market, Korea, which took an additional 32% of product this year from the managed estate.
- Improving prices, which increased 11% over the last six months despite the strengthening of the New Zealand dollar.
- Strong growth in demand from China, where total managed sales volumes increased 95% year on year.

Processing and Distribution

In our processing and distribution business, EBIT before unusual items was \$21 million for the year, up from \$14 million in the previous year.

Our strategy for clear wood products in the US market continues to be very successful despite the weakness in the broader US economy. We have penetrated this complex high value market through relationships with the two largest home improvement chains which retail our products. The business

has continued to grow strongly, with EBIT of \$26 million this year compared with \$11 million for last year.

Australasia, where we market our Origin™ brand of products, also improved, with revenues of \$169 million up from \$150 million last year. This market continues to be very buoyant and we expect continuing strong demand for the immediate future.

One difficult area has been our engineered product business, focused on the Japanese wood housing market. Despite strenuous effort, this business has struggled to achieve acceptable returns in a depressed and competitive market. We have therefore exited that market and re-orientated the plant to the Australasian markets.

Outlook

The Company goes into this new financial year with two overriding operational priorities:

- to focus on the core strengths of the business; and
- to further exploit the opportunities that our harvest profile, our structural efficiencies and our expanding marketing and distribution capability represent.

We have moved to expand our plywood factory at Mt Maunganui, and also our clear wood mouldings facility at Taupo, in order to increase our production of mouldings for the US market. We will be evaluating other processing expansion options over the next year.

The operating environment remains positive.

Residential construction activity is still strong in New Zealand. Structural lumber sales are currently running ahead of this time last year and this looks set to continue, at least through to the end of this financial year. Similarly, demand from Australia remains firm, although we would expect some slight softening as the year unfolds.

US spending on housing and house renovations has shown remarkable resilience over the last two years, and we are not seeing any significant slow-down in demand from the market segments in which we operate other than the prospect of some near-term seasonal cyclicality.

Korea, the largest of our export log markets, has been in a steady recovery mode since March 2001. This looks set to continue.

Demand from Japan is stable.

We expect sales to China to continue to grow over the current year, supported by strong GDP growth and continued expansion of the construction, residential and furniture sectors. Over the medium term, China's wood imports are forecast to increase dramatically, supported by high GDP growth and restrictions on local logging.

The Company plans to harvest approximately 1.9 million m³ in the current year, an increase of approximately 20% over the 2002 cut level. In the absence of any unforeseen significant adverse event we would expect to deliver a further significant improvement in operating results, prior to any currency impacts, in 2003.



Terry McFadgen
Chief Executive





BUILDING CUSTOMER RELATIONSHIPS **USA**

A key strategy in growing our business around the world is to build smart relationships with customers, based on product quality and service standards that are precisely tailored to the market. Its success is well illustrated in one of the most hotly contested markets in the world – the United States.

Fletcher Challenge Forests initiated its partnership strategy in the United States by becoming a shareholder in two rapidly growing distributors with strong marketing and distribution relationships with the United States' number one and number two home improvement chains – The Home Depot and Lowe's.

For these US customers the partnership relationship offers substantial advantages. They are dealing with an integrated supply chain which delivers an assured supply from the forest through a sophisticated and adaptable manufacturing process, down an efficient shipping service tied into a proven United States-based distribution system.

Underlying the US strategy was a searching assessment of how to realise the maximum value from the growing volume of high quality pruned wood coming on stream from Fletcher Challenge Forests' Radiata pine plantations. The partnership strategy opened the door to the north-eastern United States, the major market for solid wood mouldings and boards made from this pruned wood.



The results now help underpin the value of our forest asset itself.

The environmental sensitivities of United States consumers gave Fletcher Challenge Forests a further critical advantage. Its sustainable Radiata pine plantations hold Forest Stewardship Council environmental certification, a highly desirable feature in a marketplace where consumers demand that products are sourced from environmentally sustainable plantations.

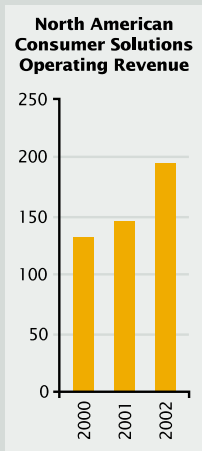
Strong Growth Continues

The momentum from the US strategy continued strongly this year, with 34% growth in operating revenue by the North American Consumer Solutions business unit. Demand from the home improvement retail sector has remained very strong, in spite of a weaker US economy.

To date our remanufactured products, all based on high value pruned wood, are being retailed primarily through Home Depot and Lowe's stores – numbering over 900 stores in total. Sales of high grade appearance lumber to other moulding and millwork manufacturers are also growing.

Our product range is being expanded. In addition to the solid wood mouldings produced at the specialist Taupo plant, we have started full production of "clear boards" for the US hobby and DIY market.

These clear, knot-free, small dimension boards are produced from the highest value lumber grades and in turn command the highest price of any solid lumber products.



The Taupo mouldings plant has at times struggled to keep up with the demand for product, and we are progressing a plan to install a third moulding line.

Overall, market prospects are very encouraging. Low interest rates have ensured that housing sector spending in the US is robust, with wood prices rising significantly in the last six months. A large part of the demand is driven by the repair and remodelling sector, which remains relatively stable year on year.

Fletcher Challenge Forests' equity interests in the US continue to perform strongly in their own right. Supported by our outstanding supply chain, their service performance to the home improvement retailers goes from strength to strength.

Is Fletcher Challenge Forests more market and customer focused? Absolutely. The most important attribute a company can have in relation to companies like The Home Depot is the commitment to customer service. That is the most important reason we are growing.

Neil Hagen
Chief Executive Officer
American Wood Moulding



BUILT-IN ADDED VALUE FOR THE AUSTRALASIAN MARKET

ORIGIN

Combining guaranteed performance with product innovation, the Origin™ brand has built a strong position and growing market share in the home construction markets of New Zealand and Australia.

Fletcher Challenge Forests developed Origin™ with a strong focus on the differing roles that builders, designers, homeowners and merchants play in the purchasing decision process. What builders want is the certainty that their project will proceed without problems, that the right materials are used and delivered on time and that costly rework is avoided. Designers need the assurance that they can specify Origin™ products with confidence, and homeowners the “peace of mind” that the building materials used in their home are the best available at competitive, total system, installed costs. Merchants, our channel partners, need consistency of service – on time, in full and in spec – and products that will grow their sales and profitability through consistent consumer demand.

A building solution can wear the Origin™ brand only when it passes these specified performance standards and meets the needs of the target customers. Launched initially with two key product categories, Timeframe and Plywood, the brand has since been expanded to include an Outdoor range of fencing, decking and landscaping products.



origin
I-beam



In addition, Origin™ has developed other innovative building solutions extending wood beyond its traditional uses, offering creative and cost-effective alternatives to steel and concrete. The latest is the Origin™ I-floor system, a unique, light-weight, engineered total flooring solution, utilising the advanced performance features of two engineered products – Origin™ I-beam and Origin™ Plywood “longspan” flooring. The result is a high performing, solid feel and silent floor at a cost-competitive price.

Increased Demand in Australasian Market

The Australasian market has remained buoyant over the last six months of the year, with good demand for residential construction in particular. Together with a continued growth in customer demand for Origin™ branded structural timber and building products, this led to improved market share for our key products and the following increases in sales volumes:

Origin™ Timeframe	+ 8%
Origin™ Outdoor	+14%
Origin™ Plywood	+38%
F7 (Australian structural)	+67%
Roundwood	+ 6%

Origin™ products now comprise 73% by value of our New Zealand wood product sales.

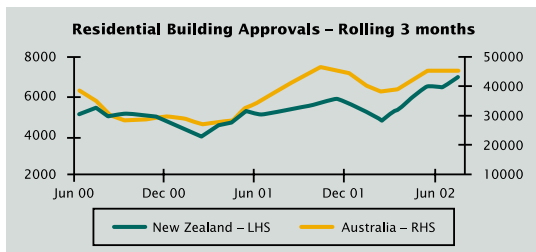
An excellent performance in the plywood category saw an increase in market share, while still maintaining a price premium, and underpinned a decision to expand our plywood manufacturing capacity at Mount Maunganui.

Continued improvements to supply chain planning processes resulted in enhanced optimisation and reduced lumber inventory (by 10%) despite a 9% increase in production.

Origin™ branded products consistently achieved the “Brand Promise” – delivered in full and on time.

Developing the brand around consistent quality, innovative products and excellent service was a big call, but a successful one. Fletcher Challenge Forests’ marketing of the Origin™ brand and its values to specifiers has definitely enabled PlaceMakers, as New Zealand’s largest building material supplier, to grow its market share. We would give them top marks for vision.

David Worley
Chief Executive
PlaceMakers



The resources previously applied to the production of re-engineered product for the Japanese market have been re-diverted to the Australasian market.

A new focus has been brought to the Australian market, where specific product strategies have redeveloped this market as a sustainable core business.





CHINA, THE EMERGING GIANT OF THE ASIAN MARKET

ASIA

China is now the world's largest importer of timber and timber related products – with a hunger for wood that will shape global wood demand over the next decade. That demand is driven by demographic changes, policy changes in relation to housing construction, and internal wood resource constraints.

Vast tracts of Chinese forests have now been locked up, to conserve resources and as flood protection.

Within its growing economy, private housing starts are booming, with wood now permitted and encouraged as a construction medium. A growing middle class, entry into the World Trade Organisation, and the 2008 Olympics with their huge demand for infrastructure construction will fuel further growth.

The opportunities for Fletcher Challenge Forests extend well beyond the supply of construction lumber and logs. There is a growing market for semi processed product and for wood for furniture manufacture.

Wood with Environmental Certification is increasingly sought, in response to demand from overseas customers of Chinese furniture exporters.

Overall, this complex market alone has a forecast demand for wood imports which is three times the total expected New Zealand export log output by year 2010.

Fletcher Challenge Forests has established an in-market presence, is providing technical support to customers, and is already benefiting from increased demand and a surge in sales to China.

Flexibility and Diversity in Asia

The opportunity in the China market was clearly demonstrated last year, with log sales volume from the managed estate increasing by 95% compared to the previous year. The Company will continue to commit resources and effort to further developing this opportunity, albeit a complex and difficult market at times.



Korea, our largest market in Asia, continued to show a strong lift in demand last year, with log volumes up 32%. In all, Korea accounted for approximately 17% by value of Fletcher Challenge Forests' total exports for the year. Steady demand for wood products is expected to continue from this market. Prices also improved, with Korean U-grade, primarily used in the construction sector, rising 11% in US dollar terms, June to June.

Japan sales steadied after a number of years of decline, with an improving outlook within the plywood sector as hardwood product availability becomes tighter.

Demand was also steady from the Philippines, India and the rest of Asia, and the medium term outlook remains for continued growth in log imports throughout the region. An increase in demand from Malaysia and Indonesia has recently emerged as availability of their indigenous resource decreases.

In accessing and expanding diverse Asian markets, Fletcher Challenge Forests has been an active supporter of wider industry cooperation and shared resources. This has shown positive results, notably in India.



We appreciate the excellent service provided by your company in the supply of raw materials. We have always felt that you really cared about every part of our business.

We value the fine relationship that exists between us and look forward to continued cooperation in the future.

C H Song
General Manager/Trading
Sung Chang Enterprise
Co., Ltd

Part of the single largest shipment of timber, posts and beams ready for export to Thailand



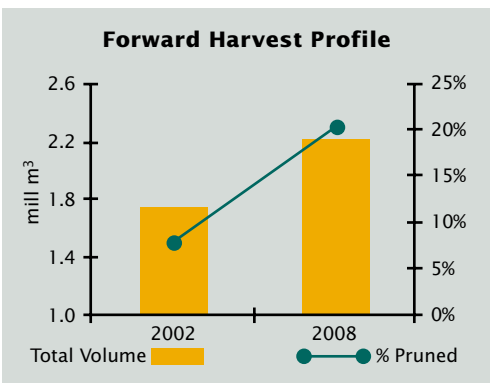
MAXIMISING VALUE
FROM OUR FORESTS

FOREST & LOGS

Fletcher Challenge Forests is now realising the financial benefits of the specific characteristics of its maturing forest estate in volume, higher value, and consumer attributes.



- Over the next six years or so the Company should benefit from increased cash generation from an increasing harvest profile.
- The percentage of the harvest output that is in the higher value category is also increasing, as more of the pruned wood becomes available. The best example of the potential of this fibre is in the US market, where the new clear board products that have been introduced attract the highest price of any wood product.



- The Company is utilising new techniques to help maximise value from the total tree and improve the conversion efficiency of our processing plants. Techniques such as stress wave analysis (sonics) allow decisions to be made on the most appropriate cut and utilisation of a tree for various markets and products, before the logs are cut. Sonic testing identifies those stems most suitable for structural end uses, typically high performance framing lumber such as Origin™ Timeframe.
- Fletcher Challenge Forests has been an industry leader in gaining and retaining the internationally recognised Forest Stewardship Council environmental certification. This comprehensive independent audit assesses the sustainable management of the forests, stewardship of the surrounding environment and landscape, and relations with the diverse communities with which the Company interacts.

This status and certification is increasingly demanded by global customers, and has been a key factor in sustaining growth in the US market. It is also now increasingly sought by Asian customers, who are utilising our product in the remanufacture of furniture and other consumer products, for re-export.

I am most impressed with their professional attitude. It starts with taking care of the forest, then when I visited the plant there was expertise in every area of the operation. Their manufacturing productivity was extremely high, which tells me they have a grip on how they operate. They have a very intelligent way of running their business.

Klaus Meyer
 Director of Global Wood,
 Procurement
 Stanley Doors



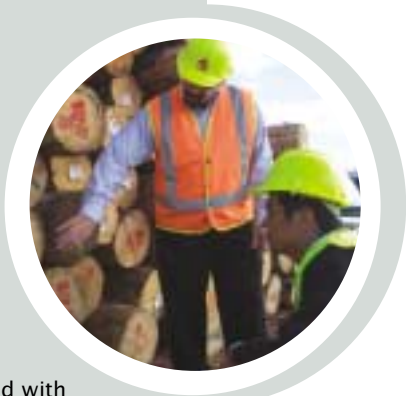


- Fletcher Challenge Forests has a Sales and Operational Planning (SOP) process as one of its core competencies. This process aligns and coordinates critical activities in the Company, including:
 - Sales and marketing objectives
 - Cost and scheduling objectives
 - Manufacturing and distribution capacities
 - Financial and inventory objectives

The SOP planning and optimisation processes and systems are unique in New Zealand forestry and give the Company a clear competitive advantage. It gives the organisation good forward visibility that enables responsiveness and good working capital management through a lean supply chain.

- Fletcher Challenge Forests' on-shore supply chain has been managed through the amalgamation of land transport operators into strategic alliances. This has produced benefits for all parties and introduced new efficiencies and continuous improvement through 24-hour operations.
- Fletcher Challenge Forests currently manages 280,000 hectares of forest within the Central North Island under silvicultural regimes based upon its Best Management Practices. The Best Management Practices define the establishment and silvicultural regimes for Radiata pine on eleven specified site types within the estate, and are an example of the high level of sophistication which the Company has developed in its forest management.

On those sites with the greater productivity within the estate, an intensive silvicultural regime aimed at high value clear wood production is prescribed. This regime is implemented on about 75% of the estate. The scale of the Company's annual establishment and tending programme has enabled it to develop a strategic alliance with a provider of silvicultural services. This has delivered more efficient work scheduling and a high quality service at a very competitive rate.



Log Price Outlook Improving

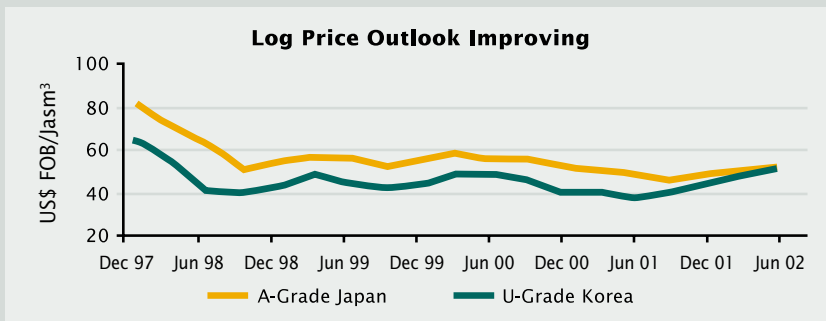
There are now grounds for optimism that global log prices are moving off price levels which are low from a historical perspective.

Korea, our largest market for logs, recorded a steady lift in demand with volume from the total managed estate (including the CNIFP) up 32%. Together with China's growth, this set a firmer tone for log export demand, and prices over this last year lifted across the board.

The strengthening of the New Zealand dollar in the last quarter of the year has put short-term downward pressure on New Zealand dollar export returns. However the price trends in the underlying foreign currencies remain positive.

This year's improved overall return from the forests was achieved on a clearfell volume of approximately 70% of what is expected to be the harvest potential of the forest when fully mature.

The increasing proportion of cut from the Company's own forests complements the increasing availability of third party supply, as well as providing higher margins for the Company.



FLETCHER CHALLENGE FORESTS IN THE COMMUNITY

Fletcher Challenge Forests has a strong commitment to the performance and employment opportunities of our employees, to the health and safety of everyone involved in our operations, and to the environmental, recreational and community life of the regions in which we operate.

Employees

Fletcher Challenge Forests' objective is to deliver excellent employment opportunities, where personal growth and development is well managed and high performance is recognised and rewarded. The Company also believes that a supportive working environment is key to its continued business success. One key initiative is the Fletcher Challenge Forests Employee Welfare Fund. This fund provides financial and other assistance to employees and their families in the event of a sudden and unexpected event, such as death, disability, or an accident or illness that causes personal hardship.

As part of its commitment to continuous improvement the Company has established the Employee Educational Fund (EEF) that assists employees with furthering their educational development. The EEF offers programmes in four broad categories, being: life skills programmes; health and wellbeing



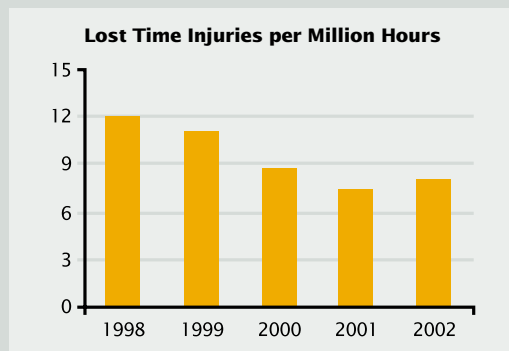


programmes; general job skills programmes and personal educational support. To date a number of employees have undertaken further study programmes as a result of assistance from the fund.

Health, Safety and Environment

Fletcher Challenge Forests is committed to maintaining a safe and healthy workplace and a high standard of environmental performance throughout its processing and planted forest activities.

The Company also has a strong commitment to use our natural resources wisely and in a manner that will ensure sustainability of the areas we manage for future generations. Sustainable management also makes good business sense.



Safety in the Workplace

Fletcher Challenge Forests has a policy of seeking continuous improvement of safety performance, and works hard to maintain a safe workplace.

The improvements in safety performance captured over the last four years have been maintained, and the number of lost time injuries per million hours worked at the end of the 2001/02 year was 8.1 (compared to 11.7 in 1998).

This was however up slightly on last year (7.5), and the Company is looking at a number of initiatives to make further step changes in safety performance. We are focusing on encouraging the further development of safe behaviour and safety culture throughout the entire company and contract workforce and to institutionalise safe behaviour as a “reflex action” in all parts of our business.

A number of Fletcher Challenge Forests processing sites have performed exceptionally well, and there are now several sites where there have been no lost time injuries for a year or more.





ACC Partnership Programme

The Company continues to participate in a partnership programme with the Accident Compensation Commission at the Tertiary (or highest) level.

The continuance of the partnership is important to Fletcher Challenge Forests, as it allows us to be proactive in the management of our work injuries as well as achieving cost savings through reduced premium levies.

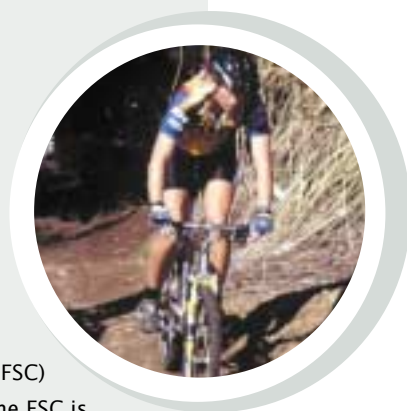
Environmental Performance

Fletcher Challenge Forests has had an excellent year in terms of environmental performance. In meeting the standard required for FSC re-certification, our forestry and processing operations were all judged to be “well managed” in accordance with the Resource Management Act and other environmental requirements.

We have also continued with initiatives to better understand the environmental values of our forests. This has resulted in research or management projects for wildlife (for example bats, falcon and kiwi) and indigenous vegetation.

At our processing sites we have continued to reduce environmental risks through improved practices and regular auditing. We have also continued to improve our understanding of historic contamination at the Waipa site (owned by the Central North Island Forest Partnership), and have cleaned up historic contamination at the Kawerau site.





Forest Stewardship Council

Fletcher Challenge Forests received Forest Stewardship Council (FSC) certification in October 2000 for the forests we own or manage. The FSC is an international organisation founded to support environmentally appropriate, socially beneficial and economically viable management of forests.

In August 2001 we underwent a rigorous process of FSC re-certification by the international audit body, Scientific Certification Systems (SCS), of our forest estates. Fletcher Challenge Forests' forest operations continue to qualify as well managed plantations.

FSC certification is assisting the Company to access international markets, in particular North America, but also more recently Asia. By use of the FSC logo customers have a way of identifying that the product they are purchasing comes from a forest that is managed according to internationally agreed social and environmental principles and criteria.

Community Investment

As one of the largest employers in the Central North Island, Fletcher Challenge Forests is committed to supporting industry and community investment in the locations in which we operate.

The Company seeks to build ongoing relationships with selected organisations in the Central North Island through investment in activities and initiatives which are socially responsible and reflect positively on the Company, our staff and the community.

Some of the major programmes that Fletcher Challenge Forests has made a commitment to support include:

- The Fletcher Challenge Forests Rescue Helicopter
- The Fletcher Challenge Forests Marathon
- The Kaharoa Kokako Trust
- The Cateye Moonride
- The Spirit of Adventure
- The Rotorua Tree Trust

One of the Company's most significant ongoing investments in Rotorua is the management of the "Tokorangi Triangle", an area of forest more commonly known as "The Redwoods". This forest, which includes walking and mountain biking tracks, is managed as a recreational area for the Rotorua and wider community.



THE BOARD OF DIRECTORS

Sir Dryden Spring

DSc (Hon)

Chairman of Directors

Committees

Audit

Nominations

Initially appointed 1999

Last re-elected 2001



Sir Dryden, 62, is Chairman of WEL Networks and Ericsson Communications, and NZ Chairman of the APEC Business Advisory Council. He is Deputy Chairman of Goodman Fielder, and a Director of Nufarm, the National Bank of New Zealand, Fletcher Building, Ericsson Synergy and Maersk New Zealand. Sir Dryden is a member of the New Zealand Business and Parliament Trust and Chairman of 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, and was Chairman of the New Zealand Dairy Group from 1982 to 1989. He has also served on the Boards of the Rural Banking and Finance Corporation, Ports of Auckland and Affco New Zealand.

Rodger Herbert Fisher

FCIS

Non-Executive Director

Committees

Audit

Due Diligence

Remuneration

Nominations

Initially appointed 2001

Last re-elected 2001



Mr Fisher, 56, practises as a business consultant. Prior to that he was Managing Director of Owens Group between 1987 and 1999. He is Chairman of the Civil Aviation Authority and the Aviation Security Services. Mr Fisher is Chairman of Eurotech Group and Deputy Chairman of WEL Networks and a Director of Waste Management (NZ). Mr Fisher is a Fellow of the Chartered Institute of Secretaries, the Chartered Institute of Transport, the Institute of Directors and the New Zealand Institute of Management.

Michael John Andrews

MNZIF

Non-Executive Director

Committees

Audit

Remuneration

Nominations

Due Diligence (for part of the year)

Initially appointed 1990

Last re-elected 2000



Mr Andrews, 62, retired as Chief Executive Officer of Fletcher Challenge in April 2001. He was acting Chief Executive Officer of Fletcher Building until July 2001. He was previously Divisional Chief Executive of Fletcher Challenge Energy, Fletcher Challenge Forests and Fletcher Challenge Paper and previously Chief Executive Officer of the Solid Wood Forestry sector, and before that of the former Energy and Resources Group. He is Chairman of Rubicon, the New Zealand Business Council for Sustainable Development, the New Zealand Wool Board Implementation Project Team and Industry New Zealand, and a Director of the New Zealand Trade Development Board.

Warren Arthur Larsen

MAGSc (Hons), BBS, CA

Non-Executive Director

Committees

Audit

Due Diligence (for part of the year)

Remuneration

Nominations

Initially appointed 2001

Last re-elected 2001



Mr Larsen, 56, was Chief Executive of the New Zealand Dairy Board from 1992 until June 2001. He previously managed New Zealand Dairy Board's Protein Division, until his appointment as Chief Executive in 1992. He was Chief Executive of Bay Milk Products until 1991, and received the New Zealand Dairy Industry Fellowship Award in 1985. Mr Larsen is a Director of Air New Zealand, Richmond, Vending Technologies and Owens Group and a former director of PDL Holdings, Bonlac Foods and several dairy industry companies.

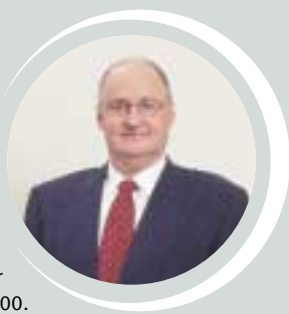
Terrence Noel McFadgen

LLB (Hons) (Auckland)
LLM (Harvard)

Executive Director

Initially appointed 2001
Last re-elected 2001

Mr McFadgen, 55, was appointed Chief Executive of Fletcher Challenge Forests in October 2000. He was previously Chief Executive of Fletcher Challenge Building, a position to which he was appointed in 1996. Mr McFadgen has held the position of Commercial Director of the Construction and Property Division of Fletcher Challenge, Chief Executive Officer of Jennings Group (Australia) and he also headed the Fletcher Challenge Group's Executive Offices Department. Mr McFadgen was, until 1990, a senior partner at Simpson Grierson in Auckland and has worked with international law firms in New York and London.



Michael Carmody Walls

BA, LLB (VUW)
LLM (London)

Non-Executive Director

Committees
Audit
Due Diligence
Nominations

Initially appointed 2001
Last re-elected 2001

Mr Walls, 57, practises as a business consultant. He was previously the Managing Director, Investment Banking, for BZW New Zealand, and then for its successor, ABN AMRO New Zealand, from 1997 to 2000. Prior to that Mr Walls practised as a commercial lawyer at Chapman Tripp, where he was a partner from 1972 until 1996 specialising in mergers and acquisitions, international finance and corporate law. Mr Walls is a former Chairman of Directors of BHP NZ Steel Holdings, and a former Chairman of Directors of the listed Independent Press Communications (now News and Media New Zealand). In addition, he has been a director of a number of unlisted companies. He is the Chairman of the Board of the New Zealand Institute of Economic Research.



Simon Luke Moriarty

MS (Stanford), LLB (Hons),
BCA

Non-Executive Director

Committees
Nominations

Initially appointed 2001
Last re-elected 2001

Mr Moriarty, 43, is the Chief Executive Officer of Rubicon. Prior to that he was Head of Strategy for Fletcher Challenge Limited and also a member of its Executive Office, and was instrumental in structuring the financial separation of the Fletcher Challenge Group in 2001. He joined Fletcher Challenge in 1982, and held a number of senior strategy and finance roles across the Fletcher Challenge Group Divisions in New Zealand and North America including Chief Financial Officer of Fletcher Challenge Canada and Director of TimberWest Forests.



The following Director ceased to hold office during the financial year to 30 June 2002: Stephen Nash Hurley resigned 14 June 2002.

CORPORATE GOVERNANCE POLICY

Fletcher Challenge Forests Limited is a New Zealand-based forestry company growing, processing and marketing an exotic, renewable timber resource. Its securities are listed on the New Zealand, New York and Australian stock exchanges.

In accordance with the generally accepted requirement by the three exchanges for formal adoption by boards of directors of corporate governance practices, the Board of Fletcher Challenge Forests Limited is committed to the highest standards of behaviour and accountability and has adopted the following policies and procedures. In addition, the Board has endorsed the principles set out in the Code of Proper Practice for Directors approved and adopted by the Institute of Directors in New Zealand (Incorporated).

Board Responsibilities

The Board has statutory responsibility for the affairs and activities of the Company, which in practice is achieved through delegation to the Company's Chief Executive who is charged with the day-to-day leadership and management of the Company. The Chief Executive also has special responsibility to manage and oversee the interfaces between the Company and the public and to act as the principal representative for the Company.

The Board has the obligation to protect and enhance the value of the assets of the Company in the interests of the Company. It achieves this through the approval of appropriate corporate strategies, with particular regard to portfolio composition and return expectations, including the approval of transactions relating to acquisitions and divestments and capital expenditures

above delegated authority limits, financial and dividend policy and the review of performance against strategic objectives.

Every year, the Board reviews and approves a long-term strategic plan and one-year operating budget for the Company.

The formulation and implementation of policies and reporting procedures for Management other than that referred to above has been delegated to the Chief Executive. The Board monitors those delegations as part of the formal business of each Board meeting.

Board Structure

The Constitution provides that the appropriate size for the Board is between five and nine members. One third of all Directors (excluding Directors appointed by the Board during the year and who must retire at the Annual Meeting) stand for election every year. The Directors who retire in each year are those who have been longest in office since their last election. In the case of Directors who were last appointed Directors on the same day, those to retire will be determined by agreement between those Directors or, if they cannot agree, by lot.

The Board supports the concept of the separation of the role of Chairman from that of the Chief Executive. The Chairman's role is to manage the Board effectively, to provide leadership to the Board, and to interface with the Chief Executive.



At present, two former executives and the Chief Executive are Directors. The current Chairman was not previously an executive. The majority of the Board are independent Directors.

The composition and terms of reference for the Board, the Chairman, the Committees and the Chief Executive are reviewed annually by the Board. The Chairman annually assesses the effectiveness of the Board and its Committees.

The Board seeks to ensure that new Directors are appropriately introduced to Fletcher Challenge Forests and all Directors are acquainted with relevant industry knowledge and economics. This includes visits to specific Company operations when appropriate and briefings from key executives and industry experts.

Board Committees

Committees established by the Board review and analyse policies and strategies, usually developed by Management, which are within their terms of reference. They examine proposals and, where appropriate, make recommendations to the full Board. Committees do not take action or make decisions on behalf of the Board unless specifically mandated by prior Board authority to do so.

The current Committees of the Board include the Audit Committee, consisting entirely of Non-Executive Directors, which meets on its own with the external auditors before each half-yearly and yearly results announcement and the

Due Diligence, Nominations (from September 2002) and Remuneration Committees also consisting entirely of Non-Executive Directors. From time to time the Board may create ad hoc committees to examine specific issues on behalf of the Board.

The Remuneration Committee of the Board provides quality assurance in respect of remuneration policies and practices, with a primary emphasis on remuneration of senior executives.

Committee chairmen and members are appointed by the Board and, where possible, consideration is given to having Directors rotate their committee assignments.

A Committee may engage separate independent counsel and/or advisors at the expense of the Company in appropriate circumstances.

Meetings of the Board

The Chairman of the Board, with the assistance of the Chief Executive, establishes the agenda for each Board Meeting. Each Board member is able to suggest the inclusion of items on the agenda. Directors receive materials at least seven days in advance of meetings for items to be acted upon. Presentations on specific subjects at Board meetings seek to summarise the material sent to Directors so that discussion is focused on the issues requiring Board determination.

The Board normally meets 11 times a year for a full day and once a year for an extended strategic planning meeting. During the year

ended 30 June 2002, a total of 26 Board meetings were held, the additional number being due to the unusual demands placed on the Board by various proposals considered by the Board for the acquisition of the assets of the Central North Island Forest Partnership (In Receivership).

Succession planning and management development is reported annually by the Chief Executive to the Board.

The Board encourages the Chief Executive to bring Management to Board meetings who can provide additional insight into the items being discussed because of personal involvement in these matters, including employees whose future potential the Chief Executive believes should be given exposure to the Board.

The Board of Directors meets periodically on an "in camera" basis without Management present.

Auditors

The Audit Committee is responsible for the oversight of the work of the Company's external auditors. This includes reviewing the services provided by the auditors to ensure that non-audit services are in compliance with relevant law relating to the independence of external auditors, such as the recent United States' Sarbanes Oxley Act 2002, and to ensure that the auditors' objectivity and independence is maintained.

In the year ended 30 June 2002, in addition to audit and audit related work, PricewaterhouseCoopers provided certain services outside the scope of audit and audit related work for additional remuneration of approximately \$64,000. The Board considers that the type of work and the amount of fees did not prejudice that firm's independence and suitability to perform the required audit and audit related work for the Company.

Health, Safety and Environmental Policy

Fletcher Challenge Forests is committed to meeting all of its environmental obligations and regulatory requirements.

There are systems and procedures in place which ensure that these areas are continually monitored, assessed and reported through management to the Board. In addition, Fletcher Challenge Forests prepares a publicly available annual Health, Safety and Environment Report which describes the Company's performance in these areas for the prior year.

Legal Requirements

Fletcher Challenge Forests is also subject to a number of governance requirements imposed on it by virtue of its listings in the United States, Australia and New Zealand. Many of these requirements are, as at the date of this Annual Report, under development by the relevant authorities. Fletcher Challenge Forests' policy is to comply in all material respects with all such governance requirements. Fletcher Challenge Forests in practice already complies with most of the proposed new governance requirements, but is conducting a full review of its governance policies and practices to ensure that they reflect "best practice".

These Governance Guidelines have been developed and approved by the Board and are reviewed by the Board at least annually.

Board Committees

The Board had, during the financial year, three ongoing permanent Committees – Audit, Remuneration and Due Diligence. In September 2002, the Board also established a Nominations Committee. Committee meetings are held on an “as required” basis.

Audit:

Committee members

M C Walls (Chairman), M J Andrews, R H Fisher, W A Larsen, Sir Dryden Spring

The audit of Fletcher Challenge Forests is a continuous process which enables the external auditors and the Board’s Audit Committee to fully review the Group’s accounting and internal control policies, procedures and practices. During the year ended 30 June 2002 a total of five Committee meetings were held. The Committee has adopted a comprehensive Charter addressing membership, authority, primary and specific responsibilities and reporting procedures. The Committee comprises five Non-Executive Directors.

Due Diligence:

Committee members

M C Walls (Chairman), M J Andrews, R H Fisher, W A Larsen

The Due Diligence Committee, established to oversee the processes required as a result of New Zealand and international securities legislation pertaining to the standards of disclosure in prospectuses, information and offering memoranda and annual reports, comprises three Non-Executive Directors.

One of the Due Diligence Committee’s objectives is to ensure compliance with relevant securities laws in circumstances where a document published by the Company could be deemed directly or indirectly to represent an invitation to invest or subscribe in the Company’s securities.

A major part of the Committee’s work involves the review of draft documents. During the year ended 30 June 2002, a total of eight Committee meetings were held.

Remuneration:

Committee members

R H Fisher (Chairman), M J Andrews, W A Larsen

The Remuneration Committee comprises three Non-Executive Directors who assist the Board in respect of senior executive remuneration, general remuneration policies, recruitment policies and practices, alignment of remuneration with the Company’s objectives and general employment-related issues. During the year ended 30 June 2002 the Committee met twice.

Nominations:

Committee members

Sir Dryden Spring (Chairman), M J Andrews, R H Fisher, W A Larsen, S L Moriarty, M C Walls
The Nominations Committee comprises six Non-Executive Directors. Its role is to identify and recommend individuals to the Board for nomination as members of the Board and its committees.

Directors’ Attendance at Meetings

Directors’ attendance at meetings for the year ended 30 June 2002

	Board Meetings		Audit Committee		Due Diligence Committee		Remuneration Committee	
	A	B	A	B	A	B	A	B
D T Spring	26	26	5	5				
M J Andrews	26	23	5	1	6	3	2	2
R H Fisher	26	23	5	4	8	6	2	2
S N Hurley	25	14						
W A Larsen	26	20	5	3	2	2	2	2
T N McFadgen	26	25						
S L Moriarty	20	20						
M C Walls	26	26	5	5	8	8		

A = Meetings held while a Director or Committee member

B = Meetings attended

MANAGEMENT'S DISCUSSION AND ANALYSIS

MD&A

Fletcher Challenge Forests' earnings before interest and taxation (EBIT), prior to unusual items, were \$136 million, or 4.9 cents per share, including a forest crop revaluation of \$53 million. EBIT, before unusual items and the crop revaluation, totalled \$83 million for the year, an increase of \$66 million over the \$17 million recorded last year.⁽¹⁾

Other highlights were:

- EBIT of \$136 million represented a Return on Capital Employed of 9.6%.
- EBIT from our North American operations were up 136% on 2001.
- Cash flow from operations before working capital for the year was strong at \$56 million, increasing from \$22 million in the first six months to \$34 million in the second half.
- EBIT before unusual items grew strongly in the second half of the financial year to \$93 million, compared to \$43 million recorded in the first six months of the year.

Our Japan Engineered Wood Products operation performed unsatisfactorily, and has been discontinued.

The results were achieved on the basis of a clearfell harvest from the Company's estate of 1.59 million m³. Our annual harvest will increase by approximately 45% over the next six years as our forests mature, with a commensurate growth in operating earnings and cash flow.

The strong growth in operating earnings was assisted by the benefits flowing through from the Company's ongoing cost reduction programme, an excellent performance from our North American operations, and an unrealised foreign exchange gain (\$25 million) as a result of the strengthening New Zealand dollar. Markets were generally stronger in the last six months.

Net profit after tax, before unusual items, was \$75 million, or 2.7 cents per share, a \$128 million turnaround compared to the loss of \$53 million in the year to June 2001⁽¹⁾. Unusual items for the current period, principally the write-off of the balance of the Company's subordinated loan to the CNIFP which was announced in the first half of the year, totalled \$324 million after tax, resulting in a net loss for the year of \$249 million.

Earnings Summary – pre Unusuals

	<i>2002 NZ\$m</i>
EBIT (pre Unusuals and Revaluation)	83
Forest Crop Revaluation	53
EBIT (pre Unusuals)	136
Funding Costs	-22
Taxation/Minority Interest	-39
Net Profit (pre Unusuals)	75

(1) Refer to the Reconciliation Schedule on page 32 for the calculation of the prior year comparatives.



Forest Valuation

During the period to June 2002 the value of our forest estate rose 5% to \$1.176 billion. The increment of \$53 million has been taken to earnings.

Our forest estate is still maturing and the volume being harvested is less than the biological growth on all remaining areas, giving rise to an increase in forest inventory of \$51 million. An increase in the 12 quarter price index was also a positive factor, assisting the higher valuation.

Change in Forest Valuation

	<i>2002 NZ\$m</i>
Opening Crop Valuation	1,123
Growth and Replanting	128
Harvesting Removals	-77
Movement in Price Index	18
Other Changes	-16
Net Revaluation	53
Closing Crop Valuation	1,176

Financial Position

The Company is now in a very satisfactory financial position, with net debt reduced to \$247 million, down \$76 million from \$323 million at June 2001.

No dividend has been declared in respect of the 2002 year. Having regard to the Company's comfortable debt level and increased financial flexibility, the Directors are currently reviewing capital management options.

Net tangible assets per share rose to 41 cents at June 2002, from 39.3 cents at December 2001.

Litigation

A US\$28 million claim against the Company by Precision Lumber of the United States has been formally withdrawn by Precision, with no liability to the Company.

In return for a payment of approximately US\$3 million, we have also eliminated any claims from Rubicon in connection with the sale of certain assets to Rubicon at the time of the Fletcher Challenge Limited separation in 2001. This included eliminating an obligation to make a fund of US\$10 million available to Rubicon to cover costs associated with transferring legal title to those assets.

The Receivers' claims against the Company in relation to the previous operations of the CNIFP remain to be resolved, since the Receivers' agreement to withdraw this action has now lapsed following the Company's termination of the CNIFP purchase agreement. As previously advised, the Company is of the view that these claims are without substance.



Review by Business Segment

Forest and Logs

Forest and Logs recorded EBIT before unusual items and crop revaluation of \$37 million, compared to \$6 million the previous year, calculated on a comparable basis. The second half of the 2002 year contributed \$21 million compared to \$16 million in the first six months.

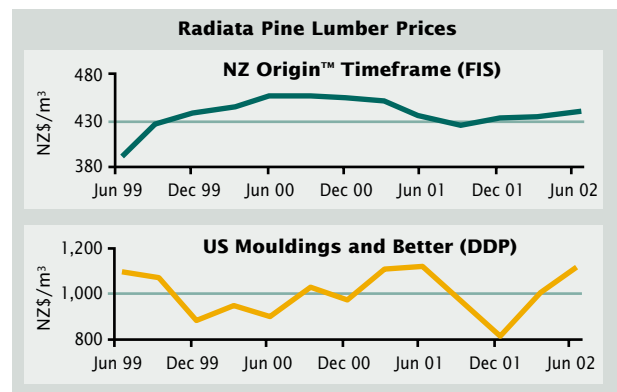
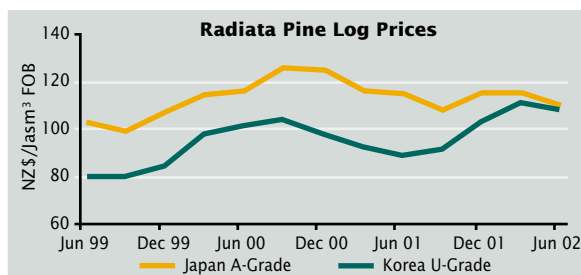
Sales revenue fell slightly to \$254 million compared to \$272 million in June 2001. External sales volumes from our own forests increased by 13% to 1.33 million m³ compared to the year to June 2001, reflecting the stronger wood products markets and our maturing forest resource. However this was more than offset by a 22% fall in the lower margin third party trading volumes to 1.88 million m³, due primarily to a change in terms of trade for certain chip suppliers.

The second half of the year showed a further improvement in prices, which were up 11% compared to the first half.

Exports accounted for 62% of sales revenue compared to 55% in the year to June 2001. Our largest market, Korea, continued to show a steady lift in demand, with volumes from our total managed estate exceeding 1 million m³ for the year, up 32%. Combined with the strong growth in the China market, where log sales volumes increased 95% year-on-year, this set the tone for log exports and we saw prices lift across the board. Korean U-grade prices rose 11% in US dollars, June-on-June.

Domestic sawlog sales rose slightly, underpinned by the strength of the residential construction sectors in both New Zealand and Australia.

The result was assisted by continuing emphasis on a low cost structure, efficient supply chains, and optimising market allocation through an effective sales and operational planning process.





Processing and Distribution

EBIT before unusual items were \$21 million for the 2002 year, up from \$14 million in June 2001. Excluding the Japanese Engineered Wood Product operation (JEW), which has been discontinued, EBIT before unusual items showed a 72% increase to \$31 million compared to \$18 million the prior year. On a six monthly basis EBIT, excluding JEW, increased from \$12 million in the first half to \$19 million in the second half of the year.

The JEW business unit continued to experience difficult trading conditions, and our efforts to restructure this business were unsuccessful. It recorded a loss of \$10 million at the EBIT level before unusual items, and we have now withdrawn from this market segment in Japan. We will continue to produce a range of engineered products for the Australasian markets.

Increased demand and stronger prices produced a 13% increase in sales revenue, from \$350 million in June 2001 to \$395 million in June 2002. Equity earnings and dividends from our associate companies (\$14 million) increased operating revenue to \$409 million for the period to June 2002. Exports accounted for 56% of sales revenue, and were split between North America (39%), Australia (8%) and Asia (9%).

The increase in sales of high value products to North America was especially noteworthy given the uncertainty in the US economy. Housing sector spending has been particularly robust and wood prices rose significantly in the second half of the year. For example the benchmark Moulding and Better grade of lumber rose over 60%, from US\$800 in December to US\$1,300 per m³ by year end.

Earnings from our associate companies improved markedly from a loss of \$2 million in June 2001 to a contribution of \$14 million in June 2002. This result has been enhanced by our equity positions in US distribution companies, and these are expected to have more strategic significance as our US business continues to grow. Following the adoption of a recently released Financial Reporting Standard, equity earnings, previously included below EBIT, are now included within Operating Revenue.



Segmental Volume Information

Sales Volumes⁽¹⁾

(000 m³) 12 months to

	June 2002	June 2001	June 2000
Log/Residue Sales			
Forest Estate			
Pruned Radiata Sawlogs	124	70	105
Structural Radiata Sawlogs	230	229	188
Utility Radiata Sawlogs	549	484	554
Industrial Radiata Sawlogs	322	220	333
Douglas Fir Sawlogs	1	1	2
Pulp Logs and Residues	361	411	410
Production Thinnings	156	105	9
Total Forest Estate	1,743	1,520	1,601
Third Party Trading ⁽²⁾	2,091	2,602	2,296
Intra-Company Trading	-622	-535	-578
Total	3,212	3,587	3,319

Manufactured Product Sales⁽³⁾

Solid Lineal Mouldings	31	26	26
Laminated and Finger-Jointed Product	84	77	69
Lumber	553	498	517
Total	668	601	612
Third Party Lumber Trading	82	85	96
Total	750	686	708

(1) Represents 100% of the volumes from managed operations excluding CNIFP.

(2) Includes logs, chips and residues.

(3) Excludes 50% owned associate operations in Argentina (sold March 2001).

(1) Reconciliation Schedule

At 30 June 2001 the Company changed its forest accounting policy. This table shows a reconciliation of earnings and cash flow from continuing operations for the prior period, incorporating adjustments to align with the new policy and for unusual items.

Year ended 30 June 2001	EBIT ⁽¹⁾	Net Earnings	Cash Flow from Operations before Working Capital
(NZ\$ million)			
Per Financial Statements	-1,671	-1,377	104
Add back net Unusual Losses (net of Accrued Interest)	995	752	23
Forest Accounting Policy Adjustments			
Forest Crop Revaluation	625	555	-
Forest Depletions	86	63	-
Capitalised Costs	-18	-12	-18
Capitalised Interest	-	-34	-111
Adjusted Comparatives (before Unusual Items) ⁽²⁾	17	-53	-2

(1) Earnings before Interest and Taxation. (2) Excludes any current period forest crop revaluation.

FINANCIALS

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The Directors are pleased to present the Annual Report for the year ended 30 June 2002.

For and on behalf of the Directors.



Sir Dryden Spring
Chairman of Directors



Terry McFadgen
Chief Executive

20 September 2002

STATEMENT OF ACCOUNTING POLICIES

Basis of Presentation

The Financial Statements presented are those of Fletcher Challenge Forests Limited (the Parent Company), and Fletcher Challenge Forests Limited and Subsidiaries (the Group).

Accounting Convention

The Financial Statements are based on the general principles of historical cost accounting with the exception of Forest Crop and investments as noted below. These Financial Statements are presented in accordance with the Companies Act 1993 and have been prepared in accordance with the Financial Reporting Act 1993 and comply with generally accepted accounting practice in New Zealand (NZ GAAP). NZ GAAP does differ in certain respects from generally accepted accounting principles in the United States (US GAAP). For a description of the significant differences and the related effect on these financial statements refer to note 30.

All policies have been applied on a consistent basis except as disclosed in note 1, 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.

Basis of Consolidation

Statement of Financial Position

The Statement of Financial Position is a consolidation of Fletcher Challenge Forests Limited and subsidiaries. The equity method has been used for associate entities over which the Group has significant influence but does not control (refer to note 17).

Shares Accounted for under the Treasury Stock Method

The Treasury Stock method of accounting is adopted where consolidated subsidiaries hold shares in Fletcher Challenge Forests Limited. On consolidation the cost, being purchase price, of any such investment by the Group is deducted from Reported Capital within Group Equity. The related shares are deducted from shares outstanding using the Treasury Stock method. Dividends and distributions are reduced by the dividends paid on such shares.

Statement of Financial Performance

The Statement of Financial Performance includes the income and expenses of all Group companies and their equity share of associated entities' earnings, but excludes unrealised earnings on inter-company transactions. Funding costs attributed to assets under development for Group 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 the Group at the date the interests in those entities 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 twenty 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 the Group's 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 Group's share of the net assets and liabilities and earnings of the investment is included on an equity basis. If the Group's interest does give rise to a controlling interest in excess of 50 per cent, the investment is consolidated. Joint Ventures in which the Group's ownership interest is directly in the assets and liabilities rather than the net residue are included on a proportional basis with assets, liabilities and earnings based on the proportional interests of the Group.

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.

Currency Translation

Statements of Financial Position of independent foreign operations 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.

STATEMENT OF ACCOUNTING POLICIES *continued***Valuation of Assets****Land, Buildings, Plant, Motor Vehicles & Office Equipment**

Land, Buildings, Plant, Motor Vehicles and Office Equipment are valued at cost less accumulated depreciation.

Forest Assets

Plantation forest crop is revalued to Directors' estimate of market valuation based on a combination of net present value and compounded replacement cost.

The measure of net present value of the plantation forest crop is determined as the amount by which future after tax cash inflows from the standing plantation forest exceed the future after tax cash costs of harvesting, transporting and marketing the logs produced, applying a discount rate to estimate the overall real return from the forest plantations. Future sales prices are determined as the weighted average of the current and the preceding 11 quarters market prices converted where appropriate from the transaction currency to NZ dollars using the prevailing exchange rate as at the transaction date. Only cash flows in respect of currently planted trees are included. No account is taken for the revenues or costs of trees not yet planted, irrespective of any intention to replant areas following harvest, or holdings of unforested land. The future inflows represent the revenues that would be received from harvesting and marketing of wood.

The net present value is calculated using a real after tax discount rate of 7.5 per cent.

Compounded replacement cost represents the costs of initial establishment and subsequent silviculture costs compounded annually at a rate of 5.0 per cent.

On a weighted average basis, the real after tax discount rate is equivalent to 8.0 per cent.

The valuation includes an annual charge for the holding cost of land equal to the discount rate of return on the government valuation of the land.

No allowance is made for future price level changes, either from inflationary or real changes in log prices. Costs are current average cost, again without consideration for inflation, real price change of the inputs, or changes in input efficiency utilisation. The measure of net present value is the best estimate available of the value of the growing trees within the plantation forests, assuming the Group will harvest and market the produce. No allowance has been made for changes in future selling prices nor in efficiency and cost of future operations, nor changes in market demand.

The Directors' valuation is determined for different age classes, as follows:

Age Class (1-5 years)	Compounded replacement cost.
Age Class (6-15 years)	Progressive weighting of compound replacement cost from year six to net present value of future net cash flows at the end of year fifteen.
Age Class (16+ years)	Net present value of future cash flows.

The net gain/loss arising from changes in Plantation Forest Crop valuation is credited/debited to the Statement of Financial Performance.

Until 30 June 2001, the carrying value was the original cost of standing forests (excluding land costs) plus capitalised costs. It did not include costs for that portion of the plantation (forests or groups of stands) which had been harvested. All costs, including appropriate funding costs, were capitalised to each stand of growing timber. Cost capitalisation to each stand ceased when each stand was ready for harvesting. Land acquired for the establishment of forestry activities was recorded at the cost of acquisition plus any direct costs associated with preparing the land for initial planting. The capitalised costs of each stand, excluding the original cost of the land and the cost of preparing the land for initial planting, were written off to Earnings at the time of harvesting. Cost capitalisation commenced or recommenced when preparation for forestry activity was initiated. A stand was defined as a continuous block of trees of the same age, species and silviculture regime. Cost capitalisation and carrying value was limited such that the total cost capitalised could not exceed the estimated recoverable amount of the stand assets taking into account age, condition, location, intended use and management regime.

Capitalised funding costs were calculated as the avoidable funding cost of both forest land and crop.

Associate Entities

The equity method has been used to account for associated entities in which the Group 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 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 Equity. Upon disposal of available-for-sale securities any gains or losses measured with reference to historical cost are included in Earnings.

Investments which do not have a readily determinable fair value are classified as either continuing or non-continuing investments. Continuing investments are valued at historical cost. Permanent impairments in value of continuing investments are written off to Earnings as they arise. Non-continuing investments are valued at the lower of historical cost or estimated net realisable value and any reduction in value is written off to Earnings.

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. Log stocks are recorded at market value. Cost includes direct manufacturing costs and manufacturing overheads at normal operating levels.

STATEMENT OF ACCOUNTING POLICIES *continued***Debtors**

Debtors are valued at estimated net realisable value after providing against debts where collection is doubtful.

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 the 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 recoverable amount of the asset.

Valuation of Liabilities**Derivative Financial Instruments**

The Group uses derivative financial instruments for the purpose of managing its exposure to adverse fluctuations in interest and foreign currency exchange rates. While these instruments are subject to fluctuations in value, such fluctuations are generally offset by the change in value of the underlying exposures being hedged. The Group policy specifically prohibits the holding or issuing of derivative financial instruments for trading or speculative purposes.

All derivative instruments are recorded on the balance sheet at fair value. Changes in the fair value of derivatives are recorded each period in current earnings or the Statement of Movements in Equity, depending on whether a derivative is designated as part of a hedge transaction and, if it is, depending on the type of hedge transaction and the effectiveness of the hedge.

For cash flow hedge transactions in which the Group is hedging the variability of cash flows related to a variable-rate asset, liability or a forecasted transaction, the effective portion of the changes in the fair value of the derivative instrument are reported in the Statement of Movements in Equity. The gains and losses on the derivative instrument that are reported in the Statement of Movements in Equity are reclassified to earnings in the periods in which earnings are impacted by the variability of the cash flows of the hedged item.

The ineffective portion of all hedges is recognised in current period earnings.

The Group manages its exposure to interest rate movements by seeking to match asset and liability balances within maturity categories, both directly and through the use of derivative financial instruments. These derivative instruments include interest rate swaps ("swaps") that are designated and effective as hedges, as well as swaps that are designated and effective in modifying the interest rate and/or maturity characteristics of specified assets or liabilities.

The net interest received or paid on the contracts is reflected as interest income or expense of the related hedged position. Gains and losses resulting from the termination of contracts are recognised over the original period hedged as long as the underlying cash flows are still probable of occurring. If the hedged positions are sold, or the underlying cash flows are no longer probable of occurring, any unrealised gains or losses are recognised in the current period as net gains or losses on sales of interest-earning assets.

Taxation

The provision for current tax is the estimated amount due for payment in the next 12 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.

STATEMENT OF ACCOUNTING POLICIES *continued*

The future tax benefit of past and current tax losses, to the extent they exceed related deferred taxation liabilities, is not recognised unless utilisation is considered virtually certain.

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.

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.

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):

Buildings	30 years
Plant and Equipment	13 years
Office Equipment	3 to 5 years
Motor Vehicles	5 years

Forest Assets

All revenues related to forest asset harvesting are taken to Earnings when realised and related costs expensed as incurred.

Until 30 June 2001 the related capitalised costs were written off to Earnings as depletions.

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 on a straight line basis.

Pension Plan Expense

The actuarial cost of providing pension plan benefits in respect of services provided by pension plan members to the Group is expensed as it accrues over the service life of the employees, taking account of the income earned by income generating assets owned by the 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 Group.

Taxation

Taxation expense is the estimated liability in respect of current earnings after allowance for permanent differences between reported earnings and assessable earnings.

Where the taxation expense in respect of current earnings recovers taxation benefits not previously recognised, the taxation benefit recovered is offset against the taxation expense.

STATEMENT OF FINANCIAL PERFORMANCE

for year ended 30 June

Fletcher Challenge Forests Limited		Note	Fletcher Challenge Forests Group		
2001 NZ\$m	2002 NZ\$m		2002 NZ\$m	2001 NZ\$m	2000 NZ\$m
109	11	Operating Revenue	664	634	523
-78	41	Operating Expenses	-932	-1,680	-588
31	52	Operating Earnings	-268	-1,046	-65
-	-	Forest Crop Revaluation	53	-625	-
-76	-22	Funding Costs	-22	-	-
-45	30	Earnings before Taxation	-237	-1,671	-65
14	-5	Taxation	-9	285	102
-31	25	Earnings after Taxation	-246	-1,386	37
-	-	Minority Interest	-3	9	-1
-31	25	Net Earnings from Continuing Operations	-249	-1,377	36
-	-	Earnings from Discontinued Operations before Taxation	-	396	533
-	-	Gain on Disposal of Discontinued Operations before Taxation	-	1,126	-
-	-	Taxation from Discontinued Operations	-	-252	-187
-31	25	Net Earnings	-249	-107	382
Per Share Information – Continuing Operations:					
		Basic Net Earnings per Share (cents)	-9.0	-73.9	4.3
		Diluted Net Earnings per Share (cents)	-9.0	-73.9	4.0
		Net Assets per Share (\$)	0.41	0.50	2.24
		Basic Weighted Average Number of Shares Outstanding (millions of shares)	2,781	1,864	846
		Diluted Weighted Average Number of Shares Outstanding (millions of shares)	2,781	1,864	897
		Share Weighting used for Net Assets per Share (millions of shares)	2,789	2,789	848

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

STATEMENT OF FINANCIAL POSITION

as at 30 June

Fletcher Challenge Forests Limited			Fletcher Challenge Forests Group	
2001	2002	Note	2002	2001
NZ\$m	NZ\$m		NZ\$m	NZ\$m
Assets				
Current Assets:				
13	–		22	51
–	–		69	75
1	6	13	64	50
56	–	14	–	56
		36		
70	6		155	232
Term Assets:				
–	–	15	336	360
–	–	16	1,176	1,123
1,768	1,414	17	24	378
1,838	1,420		1,691	2,093
Liabilities and Group Equity				
Liabilities				
Current Liabilities:				
19	4	18	105	108
–	–	19	5	–
56	–	36	–	56
75	4		110	164
Term Liabilities:				
369	264	20	269	374
-5	8	19	137	126
439	276		516	664
Group Equity				
1,443	1,443	9	1,443	1,443
-44	-299	10&11	-299	-44
1,399	1,144		1,144	1,399
–	–	12	31	30
1,399	1,144		1,175	1,429
1,838	1,420		1,691	2,093

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

For and on behalf of the Board
22 August 2002



Sir Dryden Spring
Chairman of Directors



Terry McFadgen
Chief Executive

STATEMENT OF CASH FLOWS

for year ended 30 June

Fletcher Challenge Forests Limited		Fletcher Challenge Forests Group			
2001	2002	2002	2001	2000	
NZ\$m	NZ\$m	NZ\$m	NZ\$m	NZ\$m	
		Cash was Provided:			
		From Operating Activities			
41	7	Receipts from Customers	639	648	566
109	-	Dividends and Distributions Received	6	-	3
-	4	Interest Received	1	4	-
-	-	Interest from Discontinued Operations	-	61	56
150	11	Total Provided	646	713	625
72	10	Payments to Suppliers, Employees and Other	578	638	497
77	23	Interest Paid	23	-	-
-	-	Income Tax Paid	2	3	4
149	33	Total Applied	603	641	501
1	-22	Net Cash from Operating Activities	43	72	124
		From Investing Activities			
-	-	Sale of Fixed Assets	3	80	1
-	-	Sale of Investments	3	-	-
-	-	Sale of Subsidiaries	-	-	84
-	-	Sale of Taxation Benefits	9	33	-
-	-	Total Provided	15	113	85
-	-	Purchase of Fixed Assets	5	32	50
-	-	Interest Paid Capitalised in Fixed Assets	-	111	108
-	-	Purchase of Investments	-	12	18
-	-	Total Applied	5	155	176
-	-	Net Cash from/(to) Investing Activities	10	-42	-91
		From Financing Activities			
386	35	Debt Drawdowns	35	386	1
504	-	Issue of Shares	-	504	-
-672	82	Advances from/(to) Subsidiaries	-	-	-
218	117	Total Provided	35	890	1
176	102	Debt Settlements	102	871	30
		Dividends and Distributions Paid to Group			
30	-	Stakeholders	-	-	-
-	6	Option Premium Paid	6	-	-
-	-	Dividends Paid to Minority Shareholders	2	4	2
206	108	Total Applied	110	875	32
12	9	Net Cash (to)/from Financing Activities	-75	15	-31
47	-47	Net Cash (to)/from Discontinued Operations	-47	-1,046	20
60	-60	Net Movement in Cash Held	-69	-1,001	22
		Add Opening Cash and Liquid Deposits			
-	13	- Continuing Operations	51	6	4
-	47	- Discontinued Operations	47	1,047	897
		Effect of Exchange Rate Changes on Net Cash			
-	-	- Continuing Operations	-7	-	-
-	-	- Discontinued Operations	-	46	130
47	-	Closing Cash and Liquid Deposits – Discontinued Operations	-	47	1,047
13	-	Closing Cash and Liquid Deposits – Continuing Operations	22	51	6

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*

Fletcher Challenge Forests Limited			Fletcher Challenge Forests Group		
2001	2002		2002	2001	2000
NZ\$m	NZ\$m		NZ\$m	NZ\$m	NZ\$m
		Cash was Provided from:			
-31	25	Net Earnings from Continuing Operations	-249	-1,377	36
		Adjustment for Items not involving Cash:			
		Depreciation, Depletions, Amortisation,			
43	-37	Provisions and Revaluations	305	1,729	106
-	-	Interest Capitalised from Discontinued Operations	-	61	56
-14	5	Taxation	7	-288	-106
-	-	Minority Interest in Earnings of Subsidiaries	3	-9	1
-	-	Equity Earnings (Net of Dividends)	-8	14	100
29	-32	Non Cash Adjustments	307	1,507	157
-2	-7	Cash Flow from Operations ⁽¹⁾	58	130	193
-	-	Less Gain on Disposal of Affiliates and Fixed Assets	-2	-26	-10
		Cash Flow from Operations before Net Working Capital			
-2	-7	Movements	56	104	183
3	-15	Net Working Capital Movements	-13	-32	-59
1	-22	Net Cash from Operating Activities ⁽²⁾	43	72	124
		Net Working Capital Movements:			
-7	-	Debtors	-10	5	-55
-	-	Stocks	4	-12	-25
10	-15	Creditors	-7	-25	21
3	-15		-13	-32	-59

(1) Includes Gain on Disposal of Affiliates and Fixed Assets.

(2) As per Statement of Cash Flows.

Analysis of Subsidiaries Disposed⁽¹⁾

Proceeds from Sale of Subsidiaries	-	-	84
Less Deferred Settlement Received	-	-	-73
Gain on Disposal of Subsidiaries	-	-	11

(1) Proceeds from Sale of Subsidiaries includes the sale and the settlement related to the sale of Chilean forestry operations of \$84 million in 2000.

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

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting Changes

Changes in Accounting Policies

(i) The Financial Reporting Standards Board recently issued three new standards: FRS-36 "Accounting for acquisitions resulting in combinations of entities or operations", FRS-37 "Consolidating investments in subsidiaries" and FRS-38 "Accounting for investments in associates". FRS-36 details the accounting treatment for acquisitions (excluding inter-group reconstructions) using the purchase method and requires an annual impairment test to goodwill. FRS-37 defines a subsidiary on the basis of power to control and entitlement to ownership benefits. FRS-38 defines an associate and details the accounting treatment for associates using the equity method. These standards are not yet mandatory, however, the Group has adopted the requirements of the new standards early. In addition, the Group has also applied various consequential amendments which were made to other financial reporting standards as a result of the approval and adoption of the three new financial reporting standards listed above including the requirement for separate disclosure of Minority Interests in the Statement of Movements in Equity. With the exception of FRS-38 as noted below, the implementation of these new accounting standards has not had a material impact on the consolidated financial statements in the current year.

Following the adoption of FRS-38, the Group's share of surplus from associates of \$14 million (2001: net deficit \$14 million; 2000: net deficit \$100 million) is recognised as a component of operating earnings in the Statement of Financial Performance. Dividends received from associates are included within Equity Earnings (2002: \$6 million; 2001: nil; 2000: \$3 million). Previously the Group's share of the net surplus of associates, after adjusting for any dividends received, was recognised in the Statement of Financial Performance following the earnings after taxation and dividends received from associates were recognised in earnings before taxation. This change in accounting policy has resulted in an increase in operating surplus before taxation of \$8 million (2001: deficit \$14 million; 2000: deficit \$100 million). However this change in accounting policy has had no effect on net earnings. The comparative figures have been restated on a comparable basis.

(ii) On 30 June 2001, the Group changed its accounting policy in respect of the carrying value of plantation forest crop from a historical cost basis to a market value basis. Under the new accounting policy, the plantation forest crop asset is revalued to the Directors' estimate of market valuation. The Group's policy is to include changes in valuation within the earnings before taxation in the Statement of Financial Performance. The Group's former policy was to record the carrying value of standing forests as original cost plus capitalised silviculture and funding costs. Capitalised costs were written off to earnings at the time of harvesting. This change in accounting policy resulted in a pre tax devaluation to the forest crop of \$625 million being recognised in the Statement of Financial Performance for the year ended 30 June 2001. The Board of Directors changed the accounting policy to provide timely, relevant and transparent forest valuation information which is consistent with the Australian accounting standard AASB1037 "Self-generating and regenerating assets" and the International accounting standard IAS41 "Agriculture". Under the new accounting policy, silviculture and funding costs will no longer be capitalised to the plantation forest crop and are charged directly to the Statement of Financial Performance. Depletions are no longer written off to earnings at the time of harvesting. Changes in the future market valuation of the plantation forest crop are charged directly to the Statement of Financial Performance. This change in accounting policy does not affect recognition of the operating revenue within the Statement of Financial Performance.

On 1 July 2000, the Group adopted US Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133), as amended by SFAS 138 "Accounting for Certain Derivative Instruments and Certain Hedging Activities, an amendment of SFAS 133". 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 Group Equity, 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 Group Equity are taken to Earnings consistent with the underlying hedged item. SFAS 133 requires existing derivative Financial Instruments to be recorded at Fair Value and for deferred gains and losses previously recognised in the Statement of Financial Position to be reversed. The financial impact of adopting SFAS 133 on 1 July 2000 on Discontinued Operations was a net \$2 million gain to Earnings, a net \$169 million reduction in Group Equity, a \$287 million reduction in deferred losses (recorded within Total Assets) and a \$120 million reduction in Total Liabilities impacting Deferred Taxation and the valuation of Financial Instruments. The adoption of SFAS 133 on the Continuing Operations has not had a significant impact on earnings.

On 1 July 2000, the Group adopted 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 non-compensatory 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. The application of FIN 44 did not have a material impact on the Group's financial position or results of operations.

The Securities & Exchange Commission (SEC) has 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 and is applicable from 1 July 2001. The Group adopted SAB 101 with effect from 1 July 2000. The application of SAB 101 did not have a material impact on the financial statements of the Group.

(iii) For the year ended 30 June 2000 there were no changes in Accounting Policies.

NOTES TO THE FINANCIAL STATEMENTS *continued*

<i>Fletcher Challenge Forests Limited</i>		<i>Fletcher Challenge Forests Group</i>			
<i>2001</i>	<i>2002</i>	<i>2002</i>	<i>2001</i>	<i>2000</i>	
<i>NZ\$m</i>	<i>NZ\$m</i>	<i>NZ\$m</i>	<i>NZ\$m</i>	<i>NZ\$m</i>	
2 Operating Revenue					
Operating Revenue from Continuing Operations includes:					
-	-	Trading Sales to Customers	649	622	578
-	7	Royalties received from Related Parties	-	-	-
-	4	Interest Received	1	-	-
Investment Revenue					
109	-	Dividends and Distributions	-	-	-
-	-	Interest	-	26	42
-	-	Equity Earnings ⁽¹⁾	14	-14	-97
109	11		664	634	523
The Group's share of the Earnings of Associates is:					
-	-	Operating Revenue	265	470	470
-	-	Operating Expenses ⁽²⁾	-249	-483	-566
-	-	Net Earnings	16	-13	-96
-	-	Less Taxation	-1	-	-
-	-	Less Goodwill amortised	-1	-1	-1
-	-	Equity Earnings	14	-14	-97

(1) As from 31 December 2000 and following a write-down in the realisable value of the forest estate (refer to note 3), the Group's investment in the Central North Island Forest Partnership (in Receivership) ceased to be accounted for as an associate.

In compliance with FRS-38 "Accounting for Investments in Associates", Equity Earnings have been recognised as a component of Operating Revenue (refer to note 1(i)).

Equity Earnings includes dividends received of \$6 million (2001: nil; 2000: \$3 million).

(2) Included within Equity Earnings for June 2000 is a \$62 million write-down in the carrying value of the Central North Island Forest Partnership, now in Receivership. The write-down in the Central North Island Forest Partnership (in Receivership) was primarily the result of the continuation of weak Douglas fir pricing in the Japanese market against expectations, leading to a reduction in future price expectations and a reduction in the fair value of the assets. Fair value was determined based on the discounted cash flows.

NOTES TO THE FINANCIAL STATEMENTS *continued*

Fletcher Challenge Forests Limited		Fletcher Challenge Forests Group		
2001	2002	2002	2001	2000
NZ\$m	NZ\$m	NZ\$m	NZ\$m	NZ\$m
3 Operating Earnings				
Operating Earnings from Continuing Operations includes:				
-	-			-1
Net Gains/(Losses) on Disposal of Fixed Assets				
Depreciation and Depletions:				
Depreciation Charged				
-	-	2	2	2
Buildings				
1	-	26	24	18
Plant and Equipment				
-	-	-	86	90
Plantation Forest Depletions ⁽¹⁾				
Unusual Items:				
-	-	-	26	-
Gain on Disposal of Affiliates ⁽²⁾				
-153	-	-	-63	-4
Restructuring and Separation Costs ⁽³⁾				
-	-	-349	-976	-62
Permanent Impairment ⁽⁴⁾				
-	-	2	-	-
Gain on Sale of Fixed Assets ⁽⁵⁾				
-	-	1	-5	-
Provisions Released/(Established) ⁽⁶⁾				
-	-	-6	-	-
Acquisition Costs Written Off ⁽⁷⁾				
-	-	1	-3	11
Other Gains/(Losses) ⁽⁸⁾				
-	40	23	5	4
Net Foreign Exchange Gain ⁽⁹⁾				
-	-	2	2	5
Research and Development				
-	-	-	2	1
Bad Debts Written Off				
-	-	18	16	14
Maintenance and Repairs				
5	-	8	9	7
Operating Lease Expense				
-	-	-	18	21
Forest Costs Capitalised ⁽¹⁾				
Directors' Fees Payable to Directors of Fletcher Challenge				
1	1	1	1	1
Forests Limited				
Auditors' Fees and Expenses Payable for:				
Statutory Audit				
1	-	1	1	1
PricewaterhouseCoopers				
Other Audit Related Services				
2	-	-	2	1
PricewaterhouseCoopers				
3	-	-	2	-
KPMG				

- (1) On 30 June 2001, the Group changed its accounting policy in respect of the carrying value of plantation forest crop from a historical cost basis to a market value basis. Under the new accounting policy, the plantation forest crop asset is revalued to the Directors' estimate of market valuation. Silviculture and funding costs are no longer capitalised to the plantation forest crop and are charged directly to the Statement of Financial Performance. Depletions are no longer written off to earnings at the time of harvesting.
- (2) Gain on Disposal of Affiliates for June 2001 related to the gain on sale of biotechnology and South American assets of \$26 million.
- (3) Restructuring and Separation Costs for June 2001 of \$63 million related to costs associated with the separation of the Fletcher Challenge Forests Division from the Fletcher Challenge targeted share structure and comprised legal, consultancy and other costs (\$27 million), debt break costs (\$16 million), loan establishment costs (\$12 million) and the write off of the pension asset (\$8 million). Restructuring and Separation Costs for June 2000 of \$4 million related to costs associated with the separation of the Fletcher Challenge Forests Division from the Fletcher Challenge targeted share structure.
- (4) Permanent Impairment for June 2002 relates to the investment in and advances to the Central North Island Forest Partnership of \$349 million. Permanent Impairment for June 2001 related to the investment in the Central North Island Forest Partnership of \$768 million, the impairment of the New Zealand forest estate of \$207 million and the investment in Tasman KB of \$1 million. Permanent Impairment for June 2000 related to the write-down in the carrying value of the Central North Island Forest Partnership of \$62 million (refer to note 2).

The write-down of the Group's carrying value of its investment in the Central North Island Forest Partnership (the Partnership) of \$349 million (June 2002) and \$768 million (June 2001) is based upon the assessment of the realisable value of the Partnership estate. Primarily as a result of sustained low log prices the Partnership breached certain loan ratios and covenants putting the senior bank debt facility in default in December 2000. As a consequence of the default, Receivers were appointed in February 2001. This resulted in the Receivers assuming control of the Partnership's assets with the intention of selling the Partnership's assets. As a result, the Company's equity in the Partnership has been written off, together with the Company's subordinated debt to the Partnership. The write-down of the Group's carrying value of its New Zealand forests of \$207 million (June 2001) arose primarily as a result of then current low log prices. Fair value was determined based on the discounted cash flows.

NOTES TO THE FINANCIAL STATEMENTS *continued***3 Operating Earnings** *continued*

- (5) Gain on sale of fixed assets for June 2002 of \$2 million relates to the sale of the Ngatapa forest land.
- (6) Provisions released/(established) for June 2002 relates to the reversal of certain environmental provisions of \$2 million and other provisions of \$2 million and the establishment of provisions of \$3 million for costs relating to the closure of the Japanese Engineered Wood Products business unit. Provisions released/(established) for June 2001 related to provisions established to cover costs for defending the claims of CITIC New Zealand Limited of \$5 million.
- (7) Acquisition Costs Written Off for June 2002 relate to costs incurred in relation to the proposed acquisition of the Central North Island Forest Partnership assets (refer to note 24). As at 30 June 2002, costs of \$4 million were included within Provisions (refer to note 18).
- (8) Other Gains/(Losses) for June 2002 relate to the part recovery of a debt written off of \$1 million relating to the sale of the Chilean forestry operations. Other Gains/(Losses) for June 2001 related to the write off of a debtor of \$3 million related to the sale of the Chilean forestry operations. Other Gains/(Losses) for June 2000 related to the receipt of Chile forest fire insurance proceeds of \$11 million following the sale of the Chilean forestry operations.
- (9) Net Foreign Exchange Gain for June 2002 includes net exchange gains on net US dollar denominated asset and debt instruments of \$25 million, and foreign exchange losses on working capital items of \$2 million. Net Foreign Exchange Gain of \$5 million (June 2001) and \$4 million (June 2000) related to net foreign exchange gains on working capital items.

Fletcher Challenge Forests Limited

Net Foreign Exchange Gain for June 2002 of \$40 million relates to unrealised exchange gains on debt instruments. Restructuring and Separation Costs for June 2001 of \$153 million related to costs associated with the separation of the Building, Energy and Forest Operations from the Fletcher Challenge targeted share structure. These costs comprised legal, consultancy and other costs (\$85 million), loan establishment costs (\$12 million), and the write off of the pension asset (\$56 million).

<i>Fletcher Challenge Forests Limited</i>		<i>Fletcher Challenge Forests Group</i>		
<i>2001</i>	<i>2002</i>	<i>2002</i>	<i>2001</i>	<i>2000</i>
<i>NZ\$m</i>	<i>NZ\$m</i>	<i>NZ\$m</i>	<i>NZ\$m</i>	<i>NZ\$m</i>
4 Funding Costs				
74	22	22	50	52
-	-	-	-50	-52
2	-	-	-	-
76	22	22	-	-
-	-	-	-50	-52
-	-	-	-61	-56
-	-	-	-111	-108

(1) Refer to Plantation Forest Crop, note 16.

NOTES TO THE FINANCIAL STATEMENTS *continued*

<i>Fletcher Challenge Forests Limited</i>		<i>Fletcher Challenge Forests Group</i>			
<i>2001</i>	<i>2002</i>	<i>2002</i>	<i>2001</i>	<i>2000</i>	
<i>NZ\$m</i>	<i>NZ\$m</i>	<i>NZ\$m</i>	<i>NZ\$m</i>	<i>NZ\$m</i>	
5 Taxation					
Earnings before Taxation:					
-45	30	Domestic	-248	-1,671	-77
-	-	Foreign	11	-	12
-45	30		-237	-1,671	-65
-15	10	Taxation at 33 cents per dollar	-78	-551	-21
Adjusted for:					
-	-	Disposal of Affiliates	-	-8	-
-	-	Permanent Impairment	90	223	-
-	-	Forest Crop Revaluation	-	145	-
-	-	Equity Accounted Earnings of Associates	-	10	2
50	-	Restructuring and Separation Costs	-	9	1
-49	-2	Other Permanent Differences	1	-117	7
-	-	Net Losses of Taxation Benefits upon Separation	-	2	-
-	-	Recognition of previously Unrecognised Benefits ⁽¹⁾	-	-	-93
-	-	Taxation Transfers ⁽²⁾	-	2	-
-	-3	Taxation Over Provided in the Prior Year	-5	-	-
-	-	Rates other than 33 cents	1	-	2
-14	5	Taxation Expense/(Benefit)	9	-285	-102
Current Taxation					
-	-	New Zealand	2	-	-
-	-	Non New Zealand	5	2	3
-	-	Total Current Taxation	7	2	3
Deferred Taxation					
-14	5	New Zealand	-	-285	-109
-	-	Non New Zealand	2	-2	4
-14	5	Total Deferred Taxation	2	-287	-105
-14	5	Taxation Expense/(Benefit)	9	-285	-102

(1) Recognition of previously Unrecognised Benefits for June 2000 followed the settlement of Fletcher Challenge's distribution in specie case by the Court of Appeal in Fletcher Challenge's favour.

(2) Represents the transfer of taxation balances with Discontinued Operations with net cash proceeds of \$33 million and book value of \$31 million.

NOTES TO THE FINANCIAL STATEMENTS *continued*

Fletcher Challenge Forests Limited		Fletcher Challenge Forests Group		
2001	2002	2002	2001	2000
NZ\$m	NZ\$m	NZ\$m	NZ\$m	NZ\$m
6 Shareholder Tax Credits				
Imputation Credit Account				
Imputation Credits of Fletcher Challenge Forests Limited at the				
1	-			
		beginning of the year	-	1
-1	-	Imputation Credits lost on Separation	-	-
-	-		-	1
Imputation Credits directly and indirectly available to the				
Shareholders at 30 June are:				
-	-	Fletcher Challenge Forests Limited	-	1
-	-	Subsidiaries	-	17
-	-		-	18
Dividend Withholding Payment Credit Account				
Dividend Withholding Payment Credits of Fletcher Challenge				
-16	-	Forests Limited at the beginning of the year	-	-16
24	-	Dividend Withholding Payment Credits received	-	24
-	-	Transfer from Conduit Tax Relief Account	-	3
-8	-	Dividend Withholding Payment Credits attached to dividends paid	-	-29
-	-		-	-16
Dividend Withholding Payment Credits directly and indirectly				
available to the Shareholders at 30 June are:				
-	-	Fletcher Challenge Forests Limited	-	-16
-	-	Subsidiaries	-	-
-	-		-	-16
Conduit Tax Relief Account				
Conduit Tax Relief Credits of Fletcher Challenge Forests Limited				
-16	-1	at the beginning of the year	-1	-16
21	-	Conduit Tax Relief Credits received	-	21
-	-	Transfer to Dividend Withholding Payment Credit Account	-	-3
-6	-	Conduit Tax Relief Credits attached to dividends paid	-	-30
-1	-1		-1	-16
Conduit Tax Relief Credits directly and indirectly available to the				
Shareholders at 30 June are:				
-1	-1	Fletcher Challenge Forests Limited	-1	-16
-	-	Subsidiaries	-	-
-1	-1		-1	-16

Dividends paid by New Zealand resident companies may include imputation credits representing the income taxes paid by the Company on profits to be distributed as dividends. New Zealand resident shareholders may claim a tax credit equal to the value of the imputation credits attached to dividends. The Company acts as a conduit for the central Government in achieving taxation relief. Accordingly the credits are not recognised in the financial statements of the company.

NOTES TO THE FINANCIAL STATEMENTS *continued***7 Net Earnings per Share**

Net Earnings per Share (EPS) are disclosed for Fletcher Challenge Forests Continuing Operations.

Diluted Net Earnings per Share uses the weighted average number of shares used for Basic Net Earnings per Share, adjusted for dilutive securities. Capital Notes, Options and Option Equivalents, convertible to Shares, are considered dilutive securities for Diluted Net Earnings per Share. Options and Option Equivalents convertible into Shares are included, using the Treasury Stock method, as Share Equivalents.

	<i>Fletcher Challenge Forests Group</i>		
	2002	2001	2000
	NZ\$m	NZ\$m	NZ\$m
Fletcher Challenge Forests – Continuing Operations			
<i>Numerator</i>			
Numerator for Basic Net Earnings per Fletcher Challenge Forests Share	-249	-1,377	36
Numerator for Diluted Net Earnings per Fletcher Challenge Forests Share	-249	-1,377	36
<i>Denominator (millions of shares)</i>			
Denominator for Basic Net Earnings per Fletcher Challenge Forests Share	2,781	1,864	846
Options and Option Equivalents	-	-	1
Capital Notes	-	-	50
Denominator for Diluted Net Earnings per Fletcher Challenge Forests Share	2,781	1,864	897

The following dilutive securities were not included in the computation of Diluted Net Earnings per Share for Fletcher Challenge Forests as they have an antidilutive effect:

Shares on Conversion of Capital Notes (millions of shares)	-	38	-
Shares on Conversion of Options and Option Equivalents (millions of shares)	-	-	7
	-	38	7

8 Dividends and Distributions

By Discontinued Operations:

Fletcher Challenge Building Shares	-	54	39
Fletcher Challenge Energy Shares	-	-	40
Fletcher Challenge Paper Shares	-	-	16
Total Distributions by: Fletcher Challenge Forests Limited	-	54	95
Fletcher Challenge Industries Limited – Capital Notes	-	36	60
	-	90	155
Less dividends on shares held by the Employee Educational Fund accounted for under the Treasury Stock method	-	-	-2
	-	90	153

NOTES TO THE FINANCIAL STATEMENTS *continued*

	2002 NZ\$m	2001 NZ\$m	2000 NZ\$m
9 Capital			
Reported Capital			
Reported Capital at the beginning of the year	1,443	2,864	2,745
Issue of Shares ⁽¹⁾	–	553	32
Cancellation of Shares ⁽²⁾	–	-1,974	–
Movement in Shares held by the Employee Educational Fund accounted for under the Treasury Stock method ⁽³⁾	–	–	87
Reported Capital	1,443	1,443	2,864

(1) Includes the issue of 1,709,015,794 Fletcher Challenge Forests Preference Shares (\$414 million) following a Rights Offer in December 2000 and the issue of 75,000,000 Fletcher Challenge Forests Ordinary Shares (\$30 million) and 150,000,000 Fletcher Challenge Forests Preference Shares (\$60 million) to Rubicon Limited in March 2001.

(2) Represents the cancellation of Fletcher Challenge Building, Energy and Paper Shares following the reorganisation of the Fletcher Challenge Group.

(3) In March 2000, the Trustees and Fletcher Challenge Forests agreed to the assets of the Employee Educational Fund (EEF) being resettled on to four separate funds for Fletcher Challenge Building, Energy, Forests and Paper. Together with administrative changes to the Trust Deed of the new funds the resettlement removed the EEF from being an in-substance subsidiary of Fletcher Challenge Forests. Shares held under the EEF funds, previously accounted for under the Treasury Stock method, are included as part of the Reported Capital.

In August 1999, 15,428,821 Fully Paid Fletcher Challenge Paper Shares, held by the EEF, previously accounted for under the Treasury Stock method, were cancelled. As Reported Capital is shown net of Treasury Stock, these cancellations had no impact on Reported Capital.

NOTES TO THE FINANCIAL STATEMENTS *continued*

	2002	2001	2000
9 Capital <i>continued</i>			
Fletcher Challenge Forests Ordinary Shares			
Number of Shares at the beginning of the year	922,207,133	847,022,182	823,880,521
Issue of Shares ⁽¹⁾	–	75,000,000	4,110,364
Net Movement in Shares accounted for under the Treasury Stock method	–	184,951	19,031,297
	922,207,133	922,207,133	847,022,182
Fletcher Challenge Forests Preference Shares			
Number of Shares at the beginning of the year	1,859,015,794	–	–
Issue of Shares ⁽¹⁾	–	1,859,015,794	–
	1,859,015,794	1,859,015,794	–
Fletcher Challenge Building Shares			
Number of Shares at the beginning of the year	–	342,632,401	325,362,696
Issue of Shares	–	–	359,178
Shares issued under the Dividend Reinvestment Plan	–	1,908,252	4,605,102
Net Movement in Shares accounted for under the Treasury Stock method	–	–	12,305,425
Cancellation of Shares ⁽²⁾	–	-344,540,653	–
	–	–	342,632,401
Fletcher Challenge Energy Shares			
Number of Shares at the beginning of the year	–	342,829,686	327,794,752
Issue of Shares	–	8,287,661	722,964
Shares issued under the Dividend Reinvestment Plan	–	–	3,004,808
Net Movement in Shares accounted for under the Treasury Stock method	–	86,500	11,307,162
Cancellation of Shares ⁽²⁾	–	-351,203,847	–
	–	–	342,829,686
Fletcher Challenge Paper Shares			
Number of Shares at the beginning of the year	–	637,884,780	636,630,377
Issue of Shares	–	–	1,254,403
Cancellation of Shares ⁽³⁾	–	-637,884,780	–
	–	–	637,884,780

(1) Relates to the issue of 1,709,015,794 Fletcher Challenge Forests Preference Shares following a Rights Offer in December 2000 and the issue of 75,000,000 Fletcher Challenge Forests Ordinary Shares and 150,000,000 Fletcher Challenge Forests Preference Shares to Rubicon Limited in March 2001. Fletcher Challenge Forests Limited has two classes of shares: Ordinary and Preference. The Preference Shares rank equally with the Ordinary Shares in all respects (including dividend and voting rights) except that the Preference Share has prior ranking (to the amount of \$0.25 per share) in the event of a liquidation of the company, for a period of five years from allotment (15 December 2000). During this period, holders of Preference Shares will vote with holders of Ordinary Shares on all matters except a vote relating to a liquidation of the Company, in which case a separate vote of the holders of the Preference Shares will be required.

(2) As part of the separation process with an effective date of 23 March 2001, Fletcher Challenge Building became a newly created stand-alone publicly listed company, Fletcher Building Limited; Fletcher Challenge Energy was sold to Shell and Apache Corporation; and Fletcher Challenge Forests remains as the continuing business of Fletcher Challenge Limited, renamed Fletcher Challenge Forests Limited. Holders of Fletcher Challenge Building Shares received, in exchange for each Fletcher Challenge Building Share, one fully paid share in Fletcher Building Limited. Fletcher Challenge Forests Shareholders continue to hold existing Fletcher Challenge Forests Ordinary and Preference Shares in Fletcher Challenge Forests Limited.

(3) Following the sale of Fletcher Challenge Paper to Norske Skog on 28 July 2000 these Fletcher Challenge Paper Shares were cancelled.

As at 30 June 2002, shares held by the Fletcher Challenge Employee Share Purchase Scheme accounted for under the Treasury Stock method include 7,300,764 fully paid Fletcher Challenge Forests Shares.

NOTES TO THE FINANCIAL STATEMENTS *continued*

			2002 NZ\$m	2001 NZ\$m	2000 NZ\$m
9 Capital <i>continued</i>					
Capital Funds	<i>Coupon</i>	<i>Election Date</i>			
Series 2000 Capital Notes	14.50%	30 September 2000	–	–	152
Series 2001 Capital Notes	12.25%	31 October 2001	–	–	100
Series 2002 Capital Notes	11.25%	15 December 2002	–	–	78
Series 2003 Capital Notes	8.05%	15 June 2003	–	–	72
Series 2003 Capital Notes	10.30%	30 November 2003	–	–	48
Series 2004 Capital Notes	8.00%	15 April 2004	–	–	102
Series 2004 Capital Notes	8.00%	15 April 2004	–	–	9
Series 2004 Capital Notes	8.00%	15 April 2004	–	–	12
Series 2005 Capital Notes	10.00%	30 April 2005	–	–	193
Fletcher Challenge Group Capital Funds			–	–	766

As part of the separation process, Fletcher Challenge Forests and Fletcher Challenge Industries Limited (FCIL) novated their obligations to Fletcher Building Limited in respect of 35 per cent of the Capital Notes and increased the interest rate by 0.50 per cent; FCIL redeemed the balance of the Capital Notes for cash at fair market prices; and if holders held less than \$5,000 of Capital Notes, FCIL redeemed all of the Capital Notes for cash at fair market prices. These payments were included within the cash flow for Discontinued Operations.

Options on Share Capital**Fletcher Challenge Forests Options**

As a result of the separation of the Fletcher Challenge targeted share structure, Fletcher Challenge determined it was appropriate to offer a cash payment (calculated by reference to the fair value of the option) to holders of Fletcher Challenge Forests Options in consideration for bringing forward the exercise date of their options. As a consequence, Fletcher Challenge Forests Options have now lapsed.

	2002		2001		2000	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Options outstanding at the beginning of the year	–	–	8,138,319	\$2.64	8,355,331	\$2.59
Options granted during the year where the exercise price exceeds the market price of shares (at grant date)	–	–	–	–	52,190	\$0.96
Options lapsed during the year	–	–	-8,134,644	\$2.74	–	–
Options forfeited during the year	–	–	-3,675	\$3.47	-269,202	\$3.12
Options outstanding at the end of the year	–	–	–	–	8,138,319	\$2.64
Options exercisable at the end of the year	–	–	–	–	5,587,374	\$2.97
Options not exercisable due to the exercise period not yet reached	–	–	–	–	2,550,945	\$1.92
Weighted average remaining contractual life of outstanding options		–		–		5 years
Total Compensation Cost recognised in income		–		<\$1m		\$1m
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

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:

		2002 Weighted Average Value	2001 Weighted Average Value	2000 Weighted Average Value
Estimated life of options	years	–	–	10
Estimated volatility of options	%	–	–	40.0
Estimated dividends per share	cents	–	–	1.5

NOTES TO THE FINANCIAL STATEMENTS *continued*

<i>Fletcher Challenge Forests Limited</i>		<i>Fletcher Challenge Forests Group</i>			
<i>2001</i>	<i>2002</i>	<i>2002</i>	<i>2001</i>	<i>2000</i>	
<i>NZ\$m</i>	<i>NZ\$m</i>	<i>NZ\$m</i>	<i>NZ\$m</i>	<i>NZ\$m</i>	
10 Reserve Movements					
3,633	-44				
		Reserves at the beginning of the year	-44	3,633	1,982
-31	25	Net Earnings	-249	-107	382
-57	-280	Revaluation of Investment in Subsidiaries	-	-	-
-	-	Investment Revaluation	-	-187	714
-	-	Reversal of Investment Revaluation on Sale of Investments	-	-316	-
Derivative Financial Instruments					
-	-	Opening adjustment on adoption of SFAS 133	-	-169	-
-	-	Net loss transferred to Earnings	-	166	-
-	-	Changes in fair value of Cash Flow hedging instruments	-	-184	-
Disposal of Fletcher Challenge Building, Energy and Paper					
-	-	Revenue Reserves	-	-2,469	-
-	-	Retained Earnings in Associates	-	23	-
-3,535	-	Investment Revaluation	-	-262	-
-	-	Net Currency Translation	-	-827	-
Net variations on translation of foreign currency financial statements net of gains and losses on designated foreign currency monetary items (net of Taxation – refer to note 19)					
-	-		-6	745	708
-54	-	Dividends and Distributions paid and proposed (refer to note 8)	-	-90	-153
-44	-299	Total Reserves	-299	-44	3,633
Reserve Transfers					
Equity Earnings of Associates transferred from Revenue Reserves (net of Dividends)					
-	-		8	-14	-118
Retained Earnings of Associates transferred to Revenue Reserves upon Realisation					
-	-		1	-292	4
11 Reserve Balances					
Reserves comprise:					
868	893	Retained Earnings	-1,006	-750	2,381
-	-	Retained Earnings in Associates	10	3	-298
-	-	Investment Revaluation	-	-	765
-	-	Net Currency Translation	697	703	785
-912	-1,192	Subsidiary Investment Revaluation	-	-	-
-44	-299	Total Reserves	-299	-44	3,633
12 Minority Equity					
-	-	Share Capital	-	-	1,081
-	-	Reserves	31	30	1,087
-	-		31	30	2,168
Included within Minority Equity for June 2000 is Minority Equity of \$2,132 million related to Discontinued Operations.					
13 Stocks					
-	-	Raw Materials and Work in Progress	2	8	
-	-	Finished Goods	67	67	
-	-		69	75	

NOTES TO THE FINANCIAL STATEMENTS *continued*

<i>Fletcher Challenge Forests Limited</i>		<i>Fletcher Challenge Forests Group</i>	
<i>2001</i>	<i>2002</i>	<i>2002</i>	<i>2001</i>
<i>NZ\$m</i>	<i>NZ\$m</i>	<i>NZ\$m</i>	<i>NZ\$m</i>
14 Debtors			
-	-	51	48
-	-	-2	-3
-	-	49	45
-	6	6	-
1	-	9	5
1	6	64	50
15 Fixed Assets			
Cost			
-	-	157	159
-	-	40	36
-	-	44	43
-	-	238	232
-	-	2	13
-	-	481	483
Accumulated Depreciation			
-	-	-11	-12
-	-	-134	-111
-	-	-145	-123
-	-	336	360
Land and Buildings Analysis			
-	-	73	67
-	-	157	159
-	-	230	226
Domicile of Fixed Assets			
-	-	336	360
Functional Currency of Fixed Assets ⁽¹⁾			
-	-	336	-
-	-	-	360
-	-	336	360

At 30 June 2002 the fair value of Land and Buildings (excluding Forest Land), based upon Government valuations, was approximately \$73 million. The Government valuations of forest land was approximately \$273 million.

(1) Effective from 30 June 2001, the Company changed its functional currency designation of Fixed Assets from United States Dollars to New Zealand Dollars.

NOTES TO THE FINANCIAL STATEMENTS *continued*

	<i>Fletcher Challenge Forests Group</i>	
	2002	2001
	NZ\$m	NZ\$m
16 Plantation Forest Crop		
Plantation forest crop at valuation	1,176	1,123
	1,176	1,123
Crop Carrying Value at the beginning of the year	1,123	1,648
Capitalised Interest	-	111
Forest Costs Capitalised	-	18
Cost of Depletions ⁽¹⁾	-	-86
Permanent Impairment ⁽²⁾	-	-207
Currency Translation	-	264
Revaluation ⁽³⁾	53	-625
Crop Carrying Value at the end of the year	1,176	1,123

(1) The capitalised forests costs and interest of each stand are written off to earnings at the time of harvesting (depletions).

(2) Primarily as a result of current low log prices, the carrying value of the plantation forest crop (on a historical cost basis) exceeded the estimated recoverable amount of the crop. The recoverable amount was determined as the sum of expected future discounted net cash flows taking into account the age, condition, location and intended end use of plantation forest crop.

(3) The following table summarises the main elements of change in the Forest Valuation for the year ended 30 June 2002:

	<i>NZ\$m</i>
Opening Crop Valuation	1,123
Revaluation:	
Growth and Replanting	128
Harvesting Removals	-77
Movement in Price Index	18
Other Changes including Cost Inflation, Area Changes and Changes in Harvest Profile	-16
Total Revaluation	53
Closing Crop Valuation	1,176

The cost base used in determining the fair value of the plantation forest crop is based upon the current costs of managing the joint estates of Fletcher Challenge Forests and the Central North Island Forest Partnership. Management of the Fletcher Challenge Forest Estate on a stand alone basis may increase the cost base from current levels.

At 30 June 2001, the Group changed its accounting policy in respect of the carrying value of the plantation forest crop from a historical cost to a market value basis as set out in the Group's Statement of Accounting Policies (refer to note 1).

NOTES TO THE FINANCIAL STATEMENTS *continued***16 Plantation Forest Crop** *continued*

The following table summarises the valuation by age class:

	2002		2001	
	Ha (000's)	NZ\$m	Ha (000's)	NZ\$m
1-5 years	18	24	19	23
6-10 years	15	52	16	45
11-15 years	23	161	24	180
16-20 years	32	385	32	376
21-25 years	21	417	20	386
Over 25 years	5	137	5	113
	114	1,176	116	1,123

The following table summarises the projected harvest volumes of the existing crop (millions of cubic metres) by five year period:

	2003-2007	2008-2012	2013-2017	2018-2022	2023-2027	2028-2032	2033-2037	Total
Radiata								
Pruned	1.3	2.8	2.4	1.7	1.9	0.5	–	10.6
Structural	1.0	2.4	3.5	2.3	2.1	1.0	0.1	12.4
Utility	3.8	3.7	3.7	3.2	3.1	1.3	0.1	18.9
Industrial	1.7	2.3	2.3	1.9	1.9	0.7	–	10.8
Pulp	1.6	1.9	2.2	2.1	1.7	0.7	–	10.2
Douglas Fir	0.2	–	–	–	–	0.8	0.2	1.2
Other Species	0.1	0.2	0.1	–	–	–	–	0.4
	9.7	13.3	14.2	11.2	10.7	5.0	0.4	64.5

The following table summarises the prices (by sales grade) adopted for the valuation and the June 2002 quarter prices:

	June 2002 12 Quarter NZ\$/m ³	June 2002 Quarter NZ\$/m ³ <i>(for information purposes)</i>	June 2001 12 Quarter NZ\$/m ³
Radiata			
Pruned	174	166	172
Structural	108	108	104
Utility	101	100	98
Industrial	70	69	68
Pulp	56	50	56
Douglas Fir	105	104	105
Other Species	61	61	60
Weighted Average Price	100	99	99

Sensitivity of Valuation to Changes in Key Assumptions:

<i>Impact on Crop Valuation</i>		2002 NZ\$m
Price		
10% Increase	plus	194
10% decrease	minus	183
Discount Rate		
50 basis points increase	minus	46
50 basis points decrease	plus	50

NOTES TO THE FINANCIAL STATEMENTS *continued*

<i>Fletcher Challenge Forests Limited</i>		<i>Fletcher Challenge Forests Group</i>	
2001	2002	2002	2001
NZ\$m	NZ\$m	NZ\$m	NZ\$m
17 Investments			
-	-	24	21
-	-	-	357
1,768	1,414	-	-
1,768	1,414	24	378
Carrying Value of Associates			
Balance at the beginning of the year including goodwill of \$4 million			
-	-	21	502
(2001: \$5 million)			
-	-	-2	33
Effect of exchange rate changes			
-	-	-	-467
Write-down of carrying value			
-	-	-3	-33
Associates disposed of during the year			
-	-	15	-13
Earnings of associates before goodwill and dividends			
-	-	-1	-1
Goodwill amortised			
-	-	-6	-
Dividends			
Balance at the end of the year including goodwill of \$3 million			
-	-	24	21
(2001: \$4 million)			
Goodwill relating to Investment in Associates			
-	-	7	7
Goodwill			
-	-	-4	-3
Accumulated amortisation			
-	-	3	4
Unamortised balance of goodwill			
(1) Combined Associates' Statement of Financial Position			
Current Assets		148	181
Term Assets		22	33
Total Assets		170	214
Current Liabilities		-34	-71
Term Liabilities		-88	-92
Total Liabilities		-122	-163
Net Assets		48	51
Interests held by Third Parties		-24	-30
Investment in Associates		24	21
Loans to the Central North Island Forest Partnership at 30 June 2001 of \$357 million were due within one year and bore interest as at 30 June 2001 of 7.8 per cent. During the year ended 30 June 2001 accrued interest of \$26 million was recognised by the Fletcher Challenge Forests Group.			
Primarily as a result of sustained low United States dollar log prices the Central North Island Forest Partnership breached certain loan ratios and covenants at 31 December 2000, putting the senior bank debt facility of approximately US\$640 million in default. As a result of the default and the likely realisation of the Partnership's assets, Fletcher Challenge Forests wrote off its equity and wrote down the carrying value of the subordinated loan to US\$225 million as at 31 December 2000.			
Following the write-down in the realisable value of the forest estate on 31 December 2000 the Group's investment in the Central North Island Forest Partnership ceased to be accounted for as an associate. The Group also ceased to recognise interest income from this date.			
On 26 February 2001, the lending banks appointed Mr Michael Stiassny and Mr Grant Graham of Ferrier Hodgson as Receivers to manage the sale of the Partnership's assets and since that date the business has been maintained under Fletcher Challenge Forests management. The Receivers appointed investment bankers Morgan Stanley as advisors and in August 2001 released an Information Memorandum to potential bidders (refer to note 24).			
On 30 June 2001, the loan was further written down to US\$145 million (NZ\$357 million) and at 31 December 2001 the balance of the loan, US\$145 million (NZ\$349 million), was written off.			

NOTES TO THE FINANCIAL STATEMENTS *continued*

Fletcher Challenge Forests Limited		Fletcher Challenge Forests Group	
2001	2002	2002	2001
NZ\$m	NZ\$m	NZ\$m	NZ\$m

18 Creditors *continued***Acquisition costs**

Balance at the beginning of the year		-	-
Provision made		4	-
Balance at the end of the year		4	-

The provision for acquisition costs was established in June 2002 for costs related to the proposed acquisition of the Central North Island Forest Partnership's assets (refer to note 24). The provision will be utilised in the next financial year.

19 Taxation

Provision for Current Taxation:

-	-	Current Taxation in the Statement of Financial Performance	7	-
-	-	Net Taxation Payments	-2	-
-	-	Provision for Current Taxation	5	-

Provision for Deferred Taxation

Timing Differences:

Deferred Taxation Assets:

-5	8	Net Operating Loss Carryforwards	-161	-70
-5	8	Total Deferred Taxation Assets	-161	-70
-	-	Valuation Allowance ⁽¹⁾	3	15
-5	8	Net Deferred Taxation Assets	-158	-55
-	-	Deferred Taxation Liabilities:		
-	-	Depreciation and Amortisation	295	181
-5	8	Provision for Deferred Taxation	137	126
-5	8	Non Current Deferred Taxation	137	126
-5	8	Provision for Deferred Taxation	137	126

Provision for Deferred Taxation:

-27	-5	Opening Provision for Deferred Taxation	126	387
-14	5	Deferred Taxation in the Statement of Financial Performance	2	-287
-	-	Deferred Taxation in Reserves (refer note 10)	-	-7
36	8	Transfer of Taxation Losses	9	33
-5	8	Provision for Deferred Taxation	137	126

(1) During the year ended 30 June 2002, Fletcher Challenge Forests reviewed its taxation position and assessed the recovery of taxation assets by jurisdiction. Following the review it was determined that a valuation allowance of \$3 million (June 2001: \$15 million) was required. The net change in the total valuation allowance for the years ended 30 June 2002 and 30 June 2001 were decreases of \$12 million and \$31 million respectively.

Realisation of taxation benefits are dependent upon their utilisation by Fletcher Challenge Forests Group companies, in accordance with income tax legislation.

Operating Losses can, subject to meeting minimum shareholder continuity requirements, be carried forward indefinitely under New Zealand income tax legislation. Fletcher Challenge Forests expects to generate sufficient taxable income to utilise the benefit of \$60 million of Operating Losses recognised which will expire if not effectively utilised within two years due to the loss of shareholder continuity following the Fletcher Challenge Group separation process.

NOTES TO THE FINANCIAL STATEMENTS *continued*

<i>Fletcher Challenge Forests Limited</i>			<i>Fletcher Challenge Forests Group</i>	
<i>2001</i>	<i>2002</i>		<i>2002</i>	<i>2001</i>
<i>NZ\$m</i>	<i>NZ\$m</i>		<i>NZ\$m</i>	<i>NZ\$m</i>
20 Term Debt				
Loans subject to Restrictive Undertakings:				
369	102	Loans with Floating Interest Rates	102	369
–	162	Loans with Fixed Interest Rates	167	5
369	264	Term Debt	269	374
Summary of Repayment Terms				
Due for Repayment:				
369	264	between three and four years	264	369
–	–	after five years	5	5
369	264	Term Debt	269	374
Summary of Interest Rates by Repayment Period (%)				
Due for Repayment:				
6.7	6.9	between three and four years	6.9	6.7
–	–	after five years	13.0	13.0
6.7	6.9	Weighted Average Interest Rate	7.1	6.8
Summary of Interest Rates by Currency (%)				
–	8.7	New Zealand Dollar	8.8	13.0
6.7	5.7	United States Dollar	5.7	6.7
6.7	6.9	Weighted Average Interest Rate	7.1	6.8
Denomination of Currencies:				
–	115	New Zealand Dollar	120	5
369	149	United States Dollar	149	369
369	264	Term Debt	269	374

Loans Subject to Restrictive Undertakings

The Restrictive Undertakings relate to the Restricted Group. Certain subsidiaries are designated Restricted. The Restricted Group borrows funds based on covenants and security over the business and assets of the Restricted Group. The Restrictive Undertakings include the covenant that additional security can be given only in very limited circumstances. The covenants, which have been tested continuously from 31 December 2001, require that:

- (i) Term debt will not exceed earnings before interest, taxation, depreciation, amortisation, revaluations and forest management costs by a factor of 4.0 times. From 30 June 2002, the covenant reduced to 3.75 times.
- (ii) Earnings before interest, taxation, depreciation, amortisation, revaluations and forest management costs were required to exceed interest expense by 2.5 times. From 1 July 2002, the covenant increased to 2.75 times.
- (iii) Net Equity must remain above US\$400 million.

In addition, Earnings before Interest and Taxation and Total Tangible Assets of Restricted Subsidiaries must exceed 90 per cent of the Group's consolidated Earnings before Interest and Taxation and Total Tangible Assets respectively.

Since the initial drawing on 23 March 2001, we have identified that both Earnings before Interest and Taxation and Total Tangible Assets of Restricted Subsidiaries represent less than the minimum required 90 per cent of the Group's consolidated Earnings before Interest and Taxation and Total Tangible Assets respectively.

We have communicated with the Facility Agent and requested a waiver of this requirement and that the Facility be amended. The Facility Agent has indicated a willingness to grant an amendment subject to agreement by all members of the banking syndicate being satisfied that their security has not been materially affected. Such agreement is expected to be given.

If the banking syndicate does not grant a waiver, the Facility Agreement allows them to cancel the facility and require immediate repayment of all outstanding amounts. We do not expect cancellation of the Facility, or that the consequences of this issue will be significant to Fletcher Challenge Forests.

Unused Committed Lines of Credit

At 30 June 2002 the Group had, subject to ratio compliance, \$87 million in unutilised committed lines of credit. The facility of \$87 million expires within four years.

NOTES TO THE FINANCIAL STATEMENTS *continued***21 Financial Instruments****(1) Management Policies*****Currency Balance Sheet Risk***

It is 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 were entered into to eliminate the exposure.

Following the change in Group functional currency from United States dollars to New Zealand dollars at 30 June 2001, the Group announced its intention to migrate a portion of its United States dollar denominated debt into New Zealand dollars.

Currency Trade Risk

It is 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.

Interest Rate Risk

The Group's previous policy in managing interest rates prior to the separation process had been to maintain a fixed interest ratio in the range of 40 per cent to 60 per cent of total debt outstanding. The position in range was managed and depended upon underlying interest rate exposures and economic conditions.

Following separation, floating rate debt was progressively migrated to fixed rate debt and going forward will be maintained in the range of 40 per cent to 70 per cent of total debt outstanding.

The Group does not enter into derivative financial instruments for trading purposes.

(2) Balance Sheet Risk

Derivative financial instruments are used as a means of managing the Group's exposure to fluctuations in foreign currency exchange rates and interest rates. While these financial instruments are subject to the risk of market rates changing subsequent to acquisition, such changes would generally be offset by opposite effects on the items being hedged.

The total principal or contract amounts of derivative financial instruments outstanding at balance date were as follows:

	<i>Fletcher Challenge Forests Group</i>	
	2002	<i>2001</i>
	NZ\$m	<i>NZ\$m</i>
Forward Exchange Contracts	9	8
Foreign Exchange Options ⁽¹⁾	-534	-
Interest Rate Swaps	162	-

(1) Foreign Exchange Options for 2002 includes an option taken out to purchase US\$250 million for NZ\$537 million in relation to the proposed acquisition of the Central North Island Forest Partnership assets (refer to note 24). In August 2002 following the cancellation of the proposed acquisition, this option was settled for a gain of approximately \$3 million on the book value at 30 June 2002 (\$6 million).

NOTES TO THE FINANCIAL STATEMENTS *continued***21 Financial Instruments** *continued***(3) Credit Risk**

To the extent the Group has a receivable from another party there is a credit risk in the event of non-performance by that counter-party.

Contracts have been entered into with various counter-parties in accordance with limits set forth by Management as to credit rating and dollar limits. Fletcher Challenge Forests does not require collateral or other security to support financial instruments. While Fletcher Challenge Forests may be subject to credit losses up to the principal or contract receivable amounts in the event of non-performance by its counter-parties, it does not expect such losses to occur except for those included in the Provision for Doubtful Debts.

In accordance with the counter-party restrictions set by Management, there are no significant concentrations of credit risk.

(4) Interest Rate Repricing

In line with the 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 borrowings and interest rate hedges:

	Fletcher Challenge Forests Group			
	2002		2001	
	NZ\$m	%	NZ\$m	%
Interest Rate Repriced:				
(including average interest rate)				
within one year	102	6.8	369	6.7
between two years and five years	162	7.1	–	–
after five years	5	13.0	5	13.0

Debtors and Creditors are not interest rate sensitive.

(5) Fair Values

The estimated fair value of the Group's financial assets and liabilities does not differ materially from the carrying values.

All financial instruments held by the Group at balance date were deemed as ineffective hedges and the fair values have been recognised in earnings in the current period.

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 the Group's term debt is estimated based on current market interest rates (including an appropriate margin) available to the Group for debt of similar maturities and on the basis that term debt at fixed interest rates is to maturity.

Currency Forward Exchange Contracts

The fair value of currency forward exchange contracts is estimated based on the quoted or estimated market prices of those instruments.

Interest Rate Swaps

The fair value of interest rate swaps are estimated based on the quoted or estimated market price.

	Fletcher Challenge Forests Group	
	2002	2001
	NZ\$m	NZ\$m
Forward Exchange Contracts	–	–
Foreign Exchange Options ⁽¹⁾	6	–
Interest Rate Swaps	–	–

(1) Foreign Exchange Options for 2002 includes an option taken out to purchase US\$250 million in exchange for NZ\$537 million in relation to the proposed acquisition of the Central North Island Forest Partnership assets (refer to note 24). In August 2002, following the cancellation of the proposed acquisition, this option was settled. A gain of \$3 million will be recognised in the next accounting period.

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 to note 17). The carrying value amount of loans to Associates is equivalent to the fair value.

Cash and Liquid Deposits, Short Term Loans and Bank Overdrafts

The carrying amount of these items is equivalent to the fair value.

NOTES TO THE FINANCIAL STATEMENTS *continued*

Fletcher Challenge Forests Group
2002 2001
NZ\$m NZ\$m

22 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	2	2
	two years	2	2
	three years	2	2
	four years	2	2
	five years	1	1
after	five years	1	2
		10	11

Operating lease commitments relate mainly to occupancy leases of buildings.

23 Contingent Liabilities

There are no contingent liabilities with respect to guarantees extended on trading transactions, performance bonds and other transactions arising in the normal course of business (2001: nil).

The following are the Group's significant Contingent Liabilities:

Fletcher Challenge Forests and a number of its subsidiaries have been named as defendants in an action brought by CITIC New Zealand Limited (now in Receivership). CITIC and Forestry Corporation of New Zealand Limited (in Receivership) are equal partners in the Central North Island Forest Partnership ("the Partnership"). The Receivers now control the litigation. The claims made relate to a number of issues in connection with the management of the Partnership before it was placed in receivership and to the value of the assets purchased from the Fletcher Challenge Group upon the establishment of the Partnership in 1996. A substantial award of damages has been sought, although not formally quantified. However, before the receivership, the claims against the Fletcher Challenge Forests Group were informally quantified by CITIC to be US\$182 million, excluding any amount for the claim relating to the assets originally purchased from the Fletcher Challenge Group on the establishment of the Partnership. Fletcher Challenge Forests believes the claims are substantially without merit. The remaining legal and associated expenses provision balance of \$4 million is considered adequate to meet further legal expenses.

A claim for US\$28.6 million had been made against Fletcher Challenge Forests Industries Limited and Fletcher Challenge Forests USA Inc by Precision Lumber Corporation. The claim alleged unauthorised and unlawful use of trade secrets and confidential information and interference with Precision Lumber Corporation's business relationships. The claim was withdrawn by Precision Lumber in July 2002.

NOTES TO THE FINANCIAL STATEMENTS *continued***24 Events After Balance Date**

On 17 June 2002 Fletcher Challenge Forests Limited reached agreement with the Receivers of the Central North Island Forest Partnership to purchase the Partnership's assets. At a Special Meeting of shareholders on 13 August 2002, the proposed acquisition of the Partnership's assets was not approved by shareholders. Following the shareholder vote, the company expensed in June 2002 all costs in relation to the proposed acquisition of \$6 million (refer to notes 3 and 18). In August 2002 the foreign exchange option taken out in relation to the proposed acquisition was settled. A gain of \$3 million will be recognised in the next accounting period (refer to note 21).

25 Environment

It is Fletcher Challenge Forests 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. The Group also commissions regular independent reports with respect to environmental management systems and the implementation of this policy.

The Group 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 Group's operations 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 that the Group's activities are in compliance in all material respects with applicable environmental laws and regulations.

26 Self Insurance

The Directors of Fletcher Challenge Forests Limited believe that the Fletcher Challenge Forests Group's risk management programmes are adequate to protect its assets and earnings against losses incurred, within a self insurance level of NZ\$5 million.

Based on past experience, the Directors do not anticipate that future losses within these levels would have a significant impact on the Group's 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 levels. Plantation forests are not insured.

In general terms, subject to the self insurance levels, the Group remains insured with insurers of high credit quality for the following risks at 30 June 2002:

	<i>NZ\$million</i>
Public and product liability	100
Loss or damage to Group property including business interruption	150
Marine charterers' liability	41

Fletcher Challenge Forests has made provision for reported and estimated unreported losses incurred at balance date.

	<i>Fletcher Challenge Forests Group</i>	
	2002	2001
	NZ\$m	NZ\$m
27 Capital Expenditure Commitments		
Approved by the Directors but uncommitted at 30 June	-	1
Committed at 30 June	2	-
	2	1
For expenditure:		
within one year	2	-
three years	-	1
	2	1

NOTES TO THE FINANCIAL STATEMENTS *continued*

	2002 NZ\$m	2001 NZ\$m	2000 NZ\$m
28 Related Party Transactions			
Fletcher Challenge Forests Group			
<i>Trading Activities with Related Parties</i>			
Purchase of logs and lumber from the Central North Island Forest Partnership	124	134	125
Amounts owing relating to the purchase of logs and lumber from the Central North Island Forest Partnership, and included within Creditors	13	15	13
Purchase of seedlings from Trees and Technology Limited ⁽¹⁾	2	1	–
Sale of logs and lumber to the Central North Island Forest Partnership	30	32	41
Amounts owed relating to the sale of logs and lumber to the Central North Island Forest Partnership, and included within Debtors	3	3	3
Sale of wood products to American Wood Moulding	31	38	47
Amounts owed relating to the sale of wood products to American Wood Moulding, and included within Debtors	1	1	3
Sale of wood products to Tasman KB ⁽²⁾	–	13	16
Amounts owed relating to the sale of wood products to Tasman KB, and included within Debtors	–	1	7
Sale of wood products to The Empire Company	18	16	13
Amounts owed relating to the sale of wood products to The Empire Company, and included within Debtors	2	1	2
Sale of Fixed Assets to Rubicon Limited ⁽³⁾	–	80	–
Payment to Rubicon Limited ⁽⁴⁾	7	–	–
Fletcher Challenge Forests Limited			
Management services provided to, and funding received from subsidiaries for which management fees have been received, and finance charges paid (expensed by Fletcher Challenge Forests Limited)	-11	24	31
Net Term (Assets)/Liabilities from subsidiary companies included within Net Investment in Subsidiary Companies ⁽⁵⁾	-29	-102	1,367

(1) Trees and Technology Limited is a wholly owned subsidiary of Rubicon Limited.

(2) The Group's ownership interest in Tasman KB was sold in July 2001.

(3) Fletcher Challenge Forests sold biotechnology and South American assets to Rubicon Limited on 23 March 2001. Proceeds of \$80 million were received and a net gain on sale of \$25 million has been recognised in the Statement of Financial Performance.

(4) As part of the Fletcher Challenge Group separation, Fletcher Challenge Forests sold to Rubicon Limited its biotechnology and South American assets but was not able to transfer legal title to certain assets, including an investment in an Argentinean associate. During the year, Fletcher Challenge Forests paid Rubicon \$7 million in full and final settlement of all claims in respect of the separation process, including the obligation to make a fund of US\$10 million available to Rubicon to meet such claims. Fletcher Challenge Forests holds the assets in trust for Rubicon Limited until the title is transferred. As part of such payment Rubicon has waived any right to make any further claims against Fletcher Challenge Forests for any failure to complete the transfer of title.

(5) These advances are for no fixed term but represent long term funding advances, and bear interest at 6.5 per cent (June 2001: 8.0 per cent; June 2000: 6.5 per cent). The Principal Subsidiaries included within Net Investment in Subsidiary Companies are disclosed in note 34, Principal Operations.

Following the purchase of Fletcher Challenge Paper (including Tasman Pulp & Paper Limited) by Norske Skog on 28 July 2000, Tasman Pulp & Paper Limited ceased to be a party to the Tasman contracts, which represent long term arrangements for the supply of saw logs and pulpwood from the Central North Island Forest Partnership to several Fletcher Challenge companies. Fletcher Challenge Forests remains a purchasing party under the Tasman contracts. It has entered into an agreement to supply certain volumes of pulp wood to Norske Skog on substantially the same terms as the Tasman contracts. The legal status of these arrangements is currently under review by the Receivers of the Partnership estate.

NOTES TO THE FINANCIAL STATEMENTS *continued***29 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:

	2002 NZ\$	2001 NZ\$	2000 NZ\$
1,000 Australian Dollars	1,149	1,246	1,284
1,000 United States Dollars	2,045	2,460	2,134

30 United States GAAP Reconciliation

The Fletcher Challenge Forests Group Financial Statements are prepared in accordance with generally accepted accounting practice in New Zealand (NZ GAAP). However, NZ GAAP does differ in certain significant respects from US GAAP. These differences and the effect of the adjustments necessary to restate Net Earnings and Fletcher Challenge Forests Group Equity are detailed below. No differences exist for the Statement of Cash Flows.

(i) Revaluation of Plantation Forest Crop

On 30 June 2001, the Group changed its accounting policy in respect of the carrying value of plantation forest crop from a historical cost basis to a market value basis. Under the market value accounting policy, silviculture and funding costs are charged directly to the Statement of Financial Performance, depletions are no longer written off to earnings at the time of harvesting and any changes in the market valuation of the plantation forest crop are charged directly to the Statement of Financial Performance. Under US GAAP, the carrying value of the plantation forest crop would continue to be recorded on a historical cost basis, silviculture and funding costs would be capitalised to the crop carrying value and the cost of the crop would be written off to earnings at the time of harvesting (depletions). The historic cost carrying value under US GAAP resulted in a permanent impairment difference of \$118 million when compared to the recoverable amount. The permanent impairment of \$118 million was identified using undiscounted cash flows as required under US GAAP (refer to note (ii) below). This US GAAP impairment primarily arose as a result of using, for the purpose of calculating the recoverable amount, an average of the previous 12 quarter price series, which is consistent with the Company's market value methodology, compared to the former use for the impairment test of the 25th percentile of a long term historical price series. The application of the above described GAAP differences has the following effect on Net Earnings:

	2002 NZ\$m	2001 NZ\$m	2000 NZ\$m
Reverse current period revaluation	-53	625	-
Capitalise silviculture costs	21	-	-
Current period depletions based on US GAAP historic cost value	-82	-	-
Capitalise funding costs	22	-	-
Permanent Impairment on US GAAP historic cost value	-118	-	-
	-210	625	-
Taxation	69	-61	-
Minority Interest	3	-9	-
Net Earnings	-138	555	-

(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 asset. 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 asset. Under US GAAP, the recoverable amount is determined to be the sum of expected future undiscounted net cash flows arising from the ownership of the assets. In June 2001 this difference resulted in a reduced write-down in the carrying value of the New Zealand forest estate under US GAAP of \$117 million. During the June 2001 year the equity investment in the Central North Island Partnership (the Partnership) was written off following the breach of certain banking covenants. The carrying value of the Partnership under US GAAP was \$29 million higher as a consequence of prior year permanent impairment differences, resulting in an additional write-down under US GAAP. In June 2000 the difference resulted in a reduced write-down in the carrying value of the investment in the Partnership under US GAAP. Following the adoption, under NZ GAAP, of market cost accounting for the plantation forest crop any permanent impairment differences relating to the plantation forest crop are included within the "Revaluation of Plantation Forest Crop" GAAP difference (refer to (i) above).

NOTES TO THE FINANCIAL STATEMENTS *continued***30 United States GAAP Reconciliation** *continued***(iii) Gain on Disposal**

Under US GAAP, the sale of fixed assets cannot be recognised until title has passed. Included within earnings under NZ GAAP for 2002 and 2001 are gains on disposal of fixed assets of \$2 million (sale of Ngatapa forest land) and \$3 million (sale of the South American operations to Rubicon) respectively from the sale of assets where title is yet to be transferred. The related sales proceeds would be reflected as a payable to the purchaser.

Under NZ GAAP, upon disposal of an investment in a foreign subsidiary the balance in the Currency Translation Reserve relating to that investment is transferred within reserves, from the Currency Translation Reserve to Revenue Reserves. Under US GAAP, the balance in the Currency Translation Reserve is reported as part of the gain or loss on sale of the subsidiary. The Currency Translation Reserve of Fletcher Challenge Energy and Paper (discontinued operations during the 2001 year) as at the date of disposal was a credit of \$770 million and \$35 million respectively. In addition, the impact of cumulative US GAAP differences resulted in the gain on disposal of Fletcher Challenge Energy being \$21 million higher (Adjustment on Acquisition – Deferred Tax) and for Fletcher Challenge Paper being \$26 million (EEF differences) less than that recorded under NZ GAAP.

(iv) Provisions

Under US GAAP, the costs of defending court proceedings, provided for in June 2001, should be expensed as incurred. Consequently, the accrual of such costs in June 2001 (\$5 million) and the release of the provision in June 2002 (\$1 million) is not permitted under US GAAP.

(v) Transfers among Entities Under Common Control

As part of the separation process during the June 2001 year, taxation benefits previously attributed to Fletcher Challenge Building, Forests and Paper were purchased by Fletcher Challenge Energy and Forests at fair value resulting in a taxation loss, under NZ GAAP, to Fletcher Challenge Forests of \$2 million. A corresponding amount was recorded within the Discontinued Operations of Fletcher Challenge Building, Energy and Paper. In addition, a gain of \$22 million has been recorded under NZ GAAP for the sale of biotechnology assets to Rubicon Limited. Under US GAAP these transactions would be accounted for as transactions between entities under common control and recorded at book value by both seller and purchaser.

(vi) Employee Educational Fund and Employee Welfare Fund

Following the changes in the Employee Educational Fund (EEF) and the Employee Welfare Fund (EWF), the EEF and EWF ceased to be consolidated in-substance subsidiaries under NZ GAAP. However, consolidation continued to be required under US GAAP. The assets of the EEF and EWF represent the funds' external investments recorded at market value.

(vii) Minority Equity

Under US GAAP, Minority Equity would not be presented as a component of Total Group Equity.

(viii) Write-down of the Central North Island Forest Partnership (in Receivership)

During the June 2001 year the Group's carrying value of its equity investment in the Central North Island Forest Partnership (the Partnership) was written down based upon the assessment of the realisable value of the Partnership's assets. Under NZ GAAP the write-down was recorded as an unusual item within Operating Earnings of \$465 million. Under US GAAP, the Group recognised its equity method losses of the Partnership, which included an impairment charge for the reduction in the carrying value of the Partnership's forest estate to net realisable value. The equity method losses were recognised first to reduce the carrying value of the Group's investment in the Partnership to zero and subsequently to reduce the value of the Group's advances to the Partnership. Accordingly, under US GAAP the write-down of the equity investment would have been recorded within Equity Earnings.

(ix) Debt Break Costs

Under US GAAP, debt break costs of \$16 million, incurred during the June 2001 year, would have been disclosed as extraordinary items from continuing operations.

(x) Classification of Debt

The Group has a US\$200 million Senior Credit Facility (the Facility) with a syndicate of banks. The Facility contains certain positive and negative covenants. The Group has identified that both Earnings before Interest and Taxation and Total Tangible Assets of Restricted Subsidiaries represent less than the minimum required 90 per cent of the Group's consolidated Earnings before Interest and Taxation and Total Tangible Assets respectively. The Group has communicated this technical breach to the Facility agent and requested a waiver of this requirement (refer to note 20).

Under NZ GAAP the amount drawn down under the Facility continues to be classified as term debt. If the banking syndicate do not grant a waiver, the Facility agreement allows them to cancel the Facility and require immediate repayment of all outstanding amounts. Under US GAAP, until a waiver is formally obtained, this debt would be classified in the Statement of Financial Position as a short term loan. We do not expect cancellation of the Facility, or that the consequences of this issue will be significant to Fletcher Challenge Forests.

NOTES TO THE FINANCIAL STATEMENTS *continued***30 United States GAAP Reconciliation** *continued***(xi) Income Taxes**

The Group has not adopted SFAS 109 "Accounting for Income Taxes" for NZ GAAP purposes. Under the Group's accounting policies, tax assets, to the extent they exceed related deferred taxation liabilities, are not recognised unless recovery is considered virtually certain. This criterion is more stringent than SFAS 109. However, the weight of the negative evidence indicates that for the years 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 Total Group Equity under US GAAP. The Group has adopted SFAS 109 disclosures in notes 5 and 19.

(xii) Adjustment on Acquisition

Under NZ GAAP, in establishing fair value of assets acquired, the investor reflects deferred income taxes as previously recorded by the investee. This is on the basis that the investee has experienced a deferral of income taxes on assets which continues and is not affected by the acquisition. On consolidation this can result in a credit to earnings to the extent unutilised tax losses are available. Under US GAAP, where the investor has available unutilised tax losses the fair value of the deferred income taxes acquired is adjusted.

(xiii) Recently Issued Accounting Standards

In July 2001, the FASB issued Statements of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations", which supersedes APB opinion No. 16, "Business Combinations" and amends or supersedes a number of related interpretations of APB 16. The statement is effective for all business combinations initiated after 30 June 2001 and for all business combinations accounted for by the purchase method that are completed after 30 June 2001. SFAS 141 addresses financial accounting and reporting for business combinations, eliminates the pooling-of-interests method of accounting for business combinations, and prescribes the initial recognition and measurement of goodwill and other intangible assets, accounting for negative goodwill and the required disclosures in respect of business combinations. The application of SFAS 141 has not had a material impact on the financial statements of the Group.

In July 2001, the FASB issued SFAS 142, "Goodwill and Other Intangible Assets" which supersedes APB Opinion No. 17, "Intangible Assets". SFAS 142 addresses how intangible assets that are acquired individually or with a group of other assets (but not those acquired in a business combination) should be accounted for in financial statements upon their acquisition. SFAS 142 also addresses how goodwill and other intangible assets (including those acquired in a business combination) should be accounted for after they have been initially recognised in the financial statements. The provisions of SFAS 142 are required to be applied starting with fiscal years beginning after 15 December 2001. SFAS 142 is required to be applied at the beginning of an entity's fiscal year and to be applied to all goodwill and other intangible assets recognised in its financial statements at that date. Management is currently evaluating the impact that adoption of SFAS 142 will have on the financial statements of the Group.

In August 2001, the FASB issued SFAS 143, "Accounting for Asset Retirement Obligations". SFAS 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and related asset retirement costs. SFAS 143 is effective for financial statements with fiscal years beginning after 15 June 2002, and will not have a material impact on the financial statements of the Group.

In August 2001, the FASB issued SFAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". SFAS 144 requires that long-lived assets to be disposed of be measured at the lower of carrying amount or fair value less costs to sell, whether reported in continuing operations or in discontinued operations. Therefore, discontinued operations for which disposals are committed to after the effective date of SFAS 144 will no longer be measured at net realisable value or include amounts for operating losses that have not yet occurred. SFAS 144 is effective for financial statements with fiscal years beginning after 15 December 2001 and is not expected to have a material impact on the financial statements of the Group.

In April 2002, the FASB issued SFAS 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections". As a result of rescinding Statement 4, which required all gains and losses from extinguishment of debt to be aggregated and, if material, classified as an extraordinary item, net of related income tax effect, the criteria in APB Opinion 30 will now be used to classify those gains and losses. We will adopt SFAS 145 as of the beginning of fiscal year 2003, and we do not expect it to have a material impact on the financial statements of the Group.

In June 2002, the FASB issued SFAS 146, "Accounting for Costs Associated with Exit or Disposal Activities", which nullifies Emerging Issues Task Force (EITF) Issue No. 94-3. SFAS 146 requires that a liability for exit or disposal activities be recognised and initially measured at fair value only when a liability has been incurred. Therefore, the recognition of such costs is deferred until all criteria of a liability is met. The implementation of this standard is not expected to have a material impact on the financial statements of the Group.

NOTES TO THE FINANCIAL STATEMENTS *continued***30 United States GAAP Reconciliation** *continued***(xiv) Reconciliation under US GAAP**

The application of the above described generally accepted accounting principles in the United States would have had the following effect on Net Earnings, Earnings per Share and Total Group Equity:

	2002 NZ\$m	<i>2001</i> <i>NZ\$m</i>	<i>2000</i> <i>NZ\$m</i>
(a) Net Earnings			
<i>Continuing Operations</i>			
As reported in accordance with NZ GAAP	-249	-1,377	36
US GAAP adjustments:			
(i) Revaluation of Plantation Forest Crop	-138	555	-
(ii) Permanent Impairment ⁽¹⁾	-	88	7
(iii) Gain on Disposal	-2	-3	-
(iv) Provisions	-1	5	-
(v) Transfer among Entities Under Common Control	-	-20	-
(vi) Employee Educational Fund and Employee Welfare Fund	-	-	12
Net Earnings from Continuing Operations in accordance with US GAAP	-390	-752	55
<i>Discontinued Operations</i>			
As reported in accordance with NZ GAAP	-	1,270	346
US GAAP adjustments:			
(ii) Gain on Disposal	-	800	-
(v) Transfer among Entities Under Common Control	-	-2	-
(vi) Employee Educational Fund and Employee Welfare Fund	-	-	104
(xii) Adjustment on Acquisition	-	3	5
Net Earnings from Discontinued Operations in accordance with US GAAP ⁽²⁾	-	2,071	455
Total Net Earnings in accordance with US GAAP	-390	1,319	510

(1) Net of taxation credit of \$2 million (June 2001) and \$4 million (June 2000).

(2) Net Earnings from Discontinued Operations under US GAAP include a taxation expense of \$252 million (June 2001) and \$187 million (June 2000).

NOTES TO THE FINANCIAL STATEMENTS *continued*

	2002 NZ\$m	2001 NZ\$m	2000 NZ\$m
30 United States GAAP Reconciliation <i>continued</i>			
(xiv) Reconciliation under US GAAP <i>continued</i>			
(b) Earnings per Share			
Using Net Earnings calculated under US GAAP results in the following Earnings per Share amounts:			
Basic Net Earnings per Share (cents)			
Fletcher Challenge Forests	-42.4	-86.9	6.5
Fletcher Challenge Forests – Before Extraordinary Items	-42.4	-85.1	6.5
<i>Discontinued Operations</i>			
Fletcher Challenge Building	–	-47.7	25.0
Fletcher Challenge Energy	–	502.6	93.3
Fletcher Challenge Energy – Gain on Sale	–	419.6	–
Fletcher Challenge Energy – Trading Operations	–	83.0	–
Fletcher Challenge Paper	–	71.5	0.9
Fletcher Challenge Paper – Gain on Sale	–	70.4	–
Fletcher Challenge Paper – Trading Operations	–	1.1	–
Diluted Net Earnings per Share (cents)			
Fletcher Challenge Forests	-42.4	-86.9	6.0
Fletcher Challenge Forests – Before Extraordinary Items	-42.4	-85.1	6.5
<i>Discontinued Operations</i>			
Fletcher Challenge Building	–	-47.7	23.3
Fletcher Challenge Energy	–	439.3	77.8
Fletcher Challenge Energy – Gain on Sale	–	364.9	–
Fletcher Challenge Energy – Trading Operations	–	74.4	–
Fletcher Challenge Paper	–	63.2	0.9
Fletcher Challenge Paper – Gain on Sale	–	60.3	–
Fletcher Challenge Paper – Trading Operations	–	1.1	–
Fletcher Challenge Forests			
<i>Denominator (millions of shares)</i>			
Denominator for Basic Net Earnings per Fletcher Challenge Forests Share	919	865	846
Options and Option Equivalents	–	–	1
Shares held by the Employee Educational Fund	–	–	22
Capital Notes	–	–	50
Denominator for Diluted Net Earnings per Fletcher Challenge Forests Share	919	865	919
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 unless antidilutive. As the Preference Shares have an antidilutive effect they were not included in the computation of Diluted Net Earnings per Share. Shares held by the EEF and EWF (refer to (vi) above) are accounted for under the Treasury Stock method for US GAAP, and considered dilutive securities under SFAS 128. As the shares held by the EEF and EWF have an antidilutive effect in 2002 and 2001, they are not included in the computation of Diluted Net Earnings per Share.			
Fletcher Challenge Building			
<i>Denominator (millions of shares)</i>			
Denominator for Basic Net Earnings per Fletcher Challenge Building Share	–	344	328
Shares held by the Employee Educational Fund	–	–	12
Capital Notes	–	–	60
Denominator for Diluted Net Earnings per Fletcher Challenge Building Share	–	344	400

NOTES TO THE FINANCIAL STATEMENTS *continued*

	2002 NZ\$m	2001 NZ\$m	2000 NZ\$m
30 United States GAAP Reconciliation <i>continued</i>			
(xiv) Reconciliation under US GAAP <i>continued</i>			
(b) Earnings per Share <i>continued</i>			
Fletcher Challenge Energy			
<i>Denominator (millions of shares)</i>			
Denominator for Basic Net Earnings per Fletcher Challenge Energy Share	–	347	329
Options and Option Equivalents	–	2	1
Shares held by the Employee Educational Fund	–	–	11
Capital Notes	–	50	73
Denominator for Diluted Net Earnings per Fletcher Challenge Energy Share	–	399	414
Fletcher Challenge Paper			
<i>Denominator (millions of shares)</i>			
Denominator for Basic Net Earnings per Fletcher Challenge Paper Share	–	638	637
Capital Notes	–	107	–
Denominator for Diluted Net Earnings per Fletcher Challenge Paper Share	–	745	637
For June 2001, the denominator for Diluted Net Earnings per Share, Fletcher Challenge Paper – Trading Operations is 638 million. As the Capital Notes have an antilutive effect on Trading Operations they were not included in the computation of Diluted Net Earnings per Share.			
(c) Total Group Equity			
As reported in accordance with NZ GAAP	1,175	1,429	9,431
US GAAP adjustments:			
(i) Revaluation of Plantation Forest Crop	534	555	–
(ii) Permanent Impairment	–	117	29
(iii) Gain on Disposal	-5	-3	–
(iv) Provisions	4	5	–
(v) Employee Educational Fund and Employee Welfare Fund	20	20	26
(vii) Minority Equity	-31	-30	-2,168
(xii) Adjustment on Acquisition (Deferred Taxation)	–	–	-24
Total Group Equity in accordance with US GAAP	1,697	2,093	7,294
(d) Changes in Total Group Equity			
Total Group Equity at the beginning of the year in accordance with US GAAP	2,093	7,294	5,594
Opening adjustment on adoption of SFAS 133	–	-169	–
	2,093	7,125	5,594
Net Earnings in accordance with US GAAP – Continuing Operations	-390	-752	55
Net Earnings in accordance with US GAAP – Discontinued Operations	–	2,071	455
Revaluation of Investments	–	-187	714
Net Movement in Cash Flow Hedges	–	-18	–
Reversal of Revaluation Reserve upon Disposal of Investment	–	-316	–
Movement in Currency Translation Reserve	-6	745	708
Total Recognised Revenues and Expenses for the year under US GAAP	-396	1,543	1,932
Transfers among Entities Under Common Control	–	22	–
Disposal of Subsidiaries	–	-6,314	–
Movement in Reported Capital	–	573	29
Movement in Capital Funds	–	-766	-56
Dividends and Distributions	–	-90	-205
Total Group Equity in accordance with US GAAP	1,697	2,093	7,294

NOTES TO THE FINANCIAL STATEMENTS *continued***31 Pension Plans**

As part of the reorganisation of the Fletcher Challenge Group the Fletcher Challenge Retirement Plan was renamed the Fletcher Building Retirement Plan and Fletcher Building Limited became the sponsoring company. Certain employees of the Fletcher Challenge Forests Group were members of the Fletcher Building Retirement Plan. These members received an offer to transfer their accrued entitlements in that plan to a new retirement plan sponsored by Fletcher Challenge Forests. The Fletcher Challenge Forests Retirement Plan was established on 16 July 2001. The Company's liability to the Fletcher Building Retirement Plan was limited to the value of the increase in members' accrued entitlements between 23 March 2001 and the date of transfer to the new Fletcher Challenge Forests Retirement Plan, less employee and employer contributions made during that period to the Fletcher Building Retirement Plan. Pension plan assets transferred to the Fletcher Challenge Forests Retirement Plan on 27 November 2001 totalled \$11 million. This differs from those disclosed due to the finalisation of negotiations with Fletcher Building Limited. The June 2001 balances represent the actuarially determined pension plan assets and obligations of the Company's active employees included within the Fletcher Building Retirement Plan. The pension plan assets and obligations of all non-active participants and certain Fletcher Challenge Corporate employees that did not continue with the Company were assumed by Fletcher Building Limited.

Pension plan balances of the continuing operations in 2000 represented pension plan assets, liabilities, income and expenses attributed by the Fletcher Challenge Group to the Forests Division as part of the targeted share structure. The Fletcher Challenge Forests Group had defined benefit pension plans that covered certain employees. The benefits were based on years of service and the employees' compensation during their years of employment. The Group's funding policy was to contribute to the plans to the extent that the service and interest cost of the plans were not covered by the return on plan assets and net amortisation and deferrals. Contributions were intended to provide not only for benefits attributed to service to date but also for those expected to be earned in the future. There were no Group plans which had accumulated benefit obligations that exceeded plan assets. Plan assets consisted primarily of property, equity and fixed income securities.

	2002 NZ\$m	2001 NZ\$m	2000 NZ\$m
Assets of Plans at Fair Value at the beginning of the year	14	50	46
Transfer of Plan Assets previously attributed to Head Office employees and pensioners to Fletcher Building Retirement Plan	–	-34	–
Adjustment for actual amounts transferred 27 November 2001 from the Fletcher Building Retirement Plan	-3	–	–
Return on Assets	–	-1	7
Benefit Payments	–	-1	-3
Assets of Plans at Fair Value	11	14	50
Vested Accumulated Benefit Obligation	11	11	41
Total Accumulated Benefit Obligation	11	11	41
(Deficit)/Excess of Plan Assets over Accumulated Benefit Obligation	–	3	9
Projected Benefit Obligation at the beginning of the year	-12	-43	-42
Transfer of projected benefit obligations previously attributed to Head Office employees and pensioners to Fletcher Building Retirement Plan	–	32	–
Interest Cost	–	–	-2
Actuarial Loss	–	-2	-2
Benefit Payments	–	1	3
Total Projected Benefit Obligation at the end of the year	-12	-12	-43
Assets of Plans at Fair Value	11	14	50
Funded (Obligation)/Surplus	-1	2	7
Less Funded (Obligation)/Surplus Recognised			
(i) in Earnings in current year – Periodic Cost	–	-7	2
– Adjustment following 27 November 2001 transfer from Fletcher Building Retirement Plan	1	–	–
(ii) in Earnings in previous years	-2	5	3
Recognised Funded (Obligation)/Surplus ^{(1) (2)}	-1	-2	5
Projected Unrecognised Funded Surplus	–	4	2
Projected Unrecognised Funded Surplus consists of:			
Unrecognised Net Gain	–	4	-3
Remaining Unamortised Balance of the Net Pension Plan Transition Asset	–	–	5
Projected Unrecognised Funded Surplus	–	4	2

(1) Recognised Funded Obligation included within note 18, Creditors for June 2002 (\$1 million) and June 2001 (\$2 million).

(2) Recognised Funded Surplus included within note 17, Investments for June 2000 (\$5 million).

NOTES TO THE FINANCIAL STATEMENTS *continued*

	2002 NZ\$m	2001 NZ\$m	2000 NZ\$m
31 Pension Plans <i>continued</i>			
Net Periodic Pension Cost			
Interest Cost on Projected Benefit Obligation	-	-	-2
Actual Return on Assets	-	-1	7
Settlement Cost for transfer to Fletcher Building Retirement Plan	-	-7	-
Net Amortisation and Deferral			
(i) Transition Amount	-	-	1
(ii) Asset Gain/(Loss)	-	1	-4
Net Amortisation and Deferral	-	1	-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 the Group's plans:

	2002 %	2001 %	2000 %
Assumed Discount Rate on Benefit Obligations	5.5	4.8	4.8
Expected Long Term Rate of Return on Plan Assets	5.5	6.0	6.0
Rate of Increase in Future Compensation Levels	3.5	4.0	4.0

NOTES TO THE FINANCIAL STATEMENTS *continued***32 Employee Remuneration**

In accordance with Section 211(1)(g) of the New Zealand Companies Act 1993, remuneration and other benefits in excess of NZ\$100,000 per annum paid to employees of Fletcher Challenge Forests Limited and its subsidiaries not being Directors of the Company during the year are detailed below. The bandings below include retirement and redundancy payments.

	<i>Number of Employees</i>
NZ\$100,000 to NZ\$110,000	20
NZ\$110,000 to NZ\$120,000	14
NZ\$120,000 to NZ\$130,000	6
NZ\$130,000 to NZ\$140,000	13
NZ\$140,000 to NZ\$150,000	9
NZ\$150,000 to NZ\$160,000	5
NZ\$170,000 to NZ\$180,000	6
NZ\$180,000 to NZ\$190,000	1
NZ\$190,000 to NZ\$200,000	4
NZ\$220,000 to NZ\$230,000	3
NZ\$260,000 to NZ\$270,000	1
NZ\$270,000 to NZ\$280,000	2
NZ\$280,000 to NZ\$290,000	2
NZ\$290,000 to NZ\$300,000	1
NZ\$330,000 to NZ\$340,000	1
NZ\$340,000 to NZ\$350,000	2
NZ\$350,000 to NZ\$360,000	1
NZ\$440,000 to NZ\$450,000	1
NZ\$490,000 to NZ\$500,000	1
NZ\$510,000 to NZ\$520,000	1
NZ\$540,000 to NZ\$550,000	1
Total	95

NOTES TO THE FINANCIAL STATEMENTS *continued***33 Segmental Information Summary**

Fletcher Challenge Forests is a New Zealand-based company, which owns and converts plantation forest resources into valued products for customers in world markets. It has strategic business units reflecting its operations in Forest and Logs, and in Processing and Distribution.

Forest and Logs

– a leader in solid wood plantation forestry. The segment intensively manages and markets logs for the company's 116,000 hectare estate and the Central North Island Forest Partnership's (in Receivership) 162,000 hectare estate in New Zealand. The segment also sources logs and chips from third parties for sale to owned and managed sawmills and or to external customers in New Zealand and Asia.

Processing and Distribution

– represented by three strategic business units, each with a distinct market and product focus:

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

(ii) Japanese and Asian Consumer Solutions – took lower quality logs through to high value engineered products used in post and beam houses in Japan, and supplied industrial lumber to Asian commercial customers. In July 2002, the Japanese and Asian Consumer Solutions business unit was merged with the Australasian Consumer Solutions business unit to form Australasian and Asian Consumer Solutions (AACS). This new business unit will discontinue operations in the Japan engineered wood product market.

(iii) North American Consumer Solutions – takes clear wood from pruned logs through to high value moulding and millwork uses in North America.

Segmental Operating Earnings Disclosure

Operating Earnings is defined as Earnings before Forest Crop Revaluation, Taxation and Funding Costs as disclosed in the Statement of Financial Performance. Fletcher Challenge Forests believes that Operating Earnings is a commonly used measure in New Zealand for discussing financial performance. Fletcher Challenge Forests, consistent with other publicly listed entities in New Zealand, has used Operating Earnings as a measure of financial performance. It is not considered appropriate to allocate funding costs across the segments. Operating Earnings is not an alternative to US GAAP earnings (loss, cash flows, or liquidity) as a measure of financial performance.

Inter-segmental pricing is carried out on a commercial and arm's length basis.

NOTES TO THE FINANCIAL STATEMENTS *continued***33 Segmental Information Summary** *continued*

	Forest & Logs NZ\$m	Processing & Distribution				South America NZ\$m	Other ⁽⁴⁾ NZ\$m	Fletcher Challenge Forests NZ\$m
		ACS ⁽¹⁾ NZ\$m	JACS ⁽²⁾ NZ\$m	NACS ⁽³⁾ NZ\$m	Total NZ\$m			
June 2002								
Sales Revenue	325	174	57	181	412	-	-	737
Other Revenue	1	-	-	14	14	-	-	15
Inter-segmental Operating Revenue	-71	-5	-11	-1	-17	-	-	-88
External Operating Revenue	255	169	46	194	409	-	-	664
Earnings before Interest, Taxation, Depreciation, Depletions, Forest Valuation and Unusual Items	50	14	-9	31	36	-	25	111
Less Depletions	-	-	-	-	-	-	-	-
Less Depreciation	-13	-9	-1	-5	-15	-	-	-28
Less Unusual Items	-348	-	-3	-	-3	-	-	-351
Operating Earnings	-311	5	-13	26	18	-	25	-268
Total Assets	1,458	111	23	99	233	-	-	1,691
Investments in Associates	-	-	-	24	24	-	-	24
Investments – Other	-	-	-	-	-	-	-	-
Capital Expenditure	4	-	-	1	1	-	-	5

	North America	Australia	New Zealand	Asia	Total
Total Operating Revenue by Destination	167	33	270	194	664
Total Operating Earnings	9	-	-277	-	-268
Total Assets	47	-	1,641	3	1,691

(1) ACS – Australasian Consumer Solutions

(2) JACS – Japanese and Asian Consumer Solutions

(3) NACS – North American Consumer Solutions

(4) Relates to net foreign exchange gains on net US dollar denominated asset and debt instruments not attributed to a specific business unit.

NOTES TO THE FINANCIAL STATEMENTS *continued***33 Segmental Information Summary** *continued*

	Forest & Logs NZ\$m	Processing & Distribution				South America NZ\$m	Other ⁽⁴⁾ NZ\$m	Fletcher Challenge Forests NZ\$m
		ACS ⁽¹⁾ NZ\$m	JACS ⁽²⁾ NZ\$m	NACS ⁽³⁾ NZ\$m	Total NZ\$m			
June 2001								
Sales Revenue	330	155	62	148	365	-	-	695
Other Revenue	17	-	-	-2	-2	-3	-	12
Inter-segmental Operating Revenue	-58	-5	-9	-1	-15	-	-	-73
External Operating Revenue	289	150	53	145	348	-3	-	634
Earnings before Interest, Taxation, Depreciation, Depletions, Forest Valuation and Unusual Items	61	16	-3	16	29	-3	-	87
Less Depletions	-86	-	-	-	-	-	-	-86
Less Depreciation	-11	-9	-1	-5	-15	-	-	-26
Less Unusual Items	-1,020	-1	-	-	-1	-	-	-1,021
Operating Earnings	-1,056	6	-4	11	13	-3	-	-1,046
Total Assets	1,787	115	30	105	250	-	56	2,093
Investments in Associates	-	2	-	19	21	-	-	21
Investments - Other	357	-	-	-	-	-	-	357
Capital Expenditure	137	3	1	9	13	5	-	155

	Europe	South America	North America	Australia	New Zealand	Asia	Total
Total Operating Revenue by Destination	3	-3	123	26	302	183	634
Total Operating Earnings	-	-3	-3	-	-1,040	-	-1,046
Total Assets	-	-	47	-	2,042	4	2,093

(1) ACS – Australasian Consumer Solutions

(2) JACS – Japanese and Asian Consumer Solutions

(3) NACS – North American Consumer Solutions

(4) Relates to Assets of Discontinued Operations

NOTES TO THE FINANCIAL STATEMENTS *continued***33 Segmental Information Summary** *continued*

	Forest & Logs NZ\$m	Processing & Distribution				South America NZ\$m	Other ⁽⁴⁾ NZ\$m	Fletcher Challenge Forests NZ\$m
		ACS ⁽¹⁾ NZ\$m	JACS ⁽²⁾ NZ\$m	NACS ⁽³⁾ NZ\$m	Total NZ\$m			
June 2000								
Sales Revenue	292	165	58	132	355	-3	-	644
Other Revenue	-53	-	-	-	-	-2	-	-55
Inter-segmental Operating Revenue	-56	-4	-5	-1	-10	-	-	-66
External Operating Revenue	183	161	53	131	345	-5	-	523
Earnings before Interest, Taxation, Depreciation, Depletions, Forest Valuation and Unusual Items	64	22	-	19	41	-5	-	100
Less Depletions	-90	-	-	-	-	-	-	-90
Less Depreciation	-10	-6	-1	-3	-10	-	-	-20
Less Unusual Items	-66	-	-	-	-	11	-	-55
Operating Earnings	-102	16	-1	16	31	6	-	-65
Total Assets	2,937	121	22	99	242	29	13,249	16,457
Investments in Associates	1,007	3	-	20	23	29	-	1,059
Investments - Other	8	-	-	-	-	-	-	8
Capital Expenditure	143	8	2	15	25	8	-	176

	Pacific Basin	Europe	South America	North America	Australia	New Zealand	Asia	Total
Total Operating Revenue by Destination	-	4	-5	109	24	228	163	523
Total Operating Earnings	-	-	6	1	-	-72	-	-65
Total Assets	63	18	1,105	6,153	1,349	7,134	635	16,457

(1) ACS – Australasian Consumer Solutions

(2) JACS – Japanese and Asian Consumer Solutions

(3) NACS – North American Consumer Solutions

(4) Relates to Assets of Discontinued Operations

NOTES TO THE FINANCIAL STATEMENTS *continued***34 Principal Operations**

Fletcher Challenge Forests Limited is the holding company of the Fletcher Challenge Forests Group. The Fletcher Challenge Forests Group's principal subsidiaries, associates and affiliates, as at 30 June, are outlined below:

	<i>Country of Domicile</i>	<i>Principal Activity</i>	2002	<i>% Holding</i> 2001
Principal Subsidiaries				
Fletcher Challenge Forests Industries Limited	NZ	Forestry	100	100
Fletcher Challenge Forests Finance Limited	NZ	Funding	100	100
Fletcher Challenge Forests (Japan) K.K.	Japan	Log, Lumber Marketing	100	100
Fletcher Challenge Forests (Manufacturing) Limited	NZ	Lumber	100	100
Fletcher Challenge Forests New Zealand Limited	NZ	Holding Company	100	100
Fletcher Challenge Forests USA Inc	USA	Lumber Marketing	100	100
Fletcher Challenge Limited	NZ	Holding Company	100	100
Tarawera Forests Limited	NZ	Forestry	82	82
Woodlink Limited	NZ	Lumber	100	100
Associates and Affiliates				
American Wood Moulding LLC	USA	Distribution	50	50
Central North Island Forest Partnership (in Receivership)	NZ	Forestry	50	50
The Empire Company	USA	Distribution	33	33
Tasman KB	Australia	Lumber Processing	–	50

The Group's ownership interest in Tasman KB was sold in July 2001.

35 Targeted Share Structure Reorganisation

In December 1999, the Board of the then Fletcher Challenge Limited announced its intention to dismantle the Group's targeted share structure and separate its four Divisions: Building, Energy, Forests and Paper.

In April 2000 the Board announced that it had reached agreement to sell Fletcher Challenge Paper to Norske Skogindustrier ASA (Norske Skog), a global publication paper producer based in Norway. The Transaction was approved by shareholders on 4 July 2000, final orders were granted by the High Court of New Zealand and settlement occurred on 28 July 2000. Under the terms of the agreement, Norske Skog acquired all of the outstanding Fletcher Challenge Paper Shares for \$2.50 per share and made a cash payment equal to the sum of the Fletcher Challenge Group debt and Fletcher Challenge Industries' Capital Notes attributed to Fletcher Challenge Paper as at the settlement date of the transaction and Fletcher Challenge Paper's share of the total costs of separating from the targeted share structure.

In October 2000 recommendations were announced for the remaining Divisions: Building, Energy and Forests; the separation process. These were approved on 6 March 2001. With an effective date of 23 March 2001, Fletcher Challenge Building became a newly created stand-alone publicly listed company, Fletcher Building Limited; Fletcher Challenge Energy was sold to Shell and Apache Corporation; and a new publicly listed company was created, Rubicon Limited. Holders of Fletcher Challenge Building Shares received, in exchange for each Fletcher Challenge Building Share, one fully paid share in Fletcher Building Limited. Fletcher Challenge Energy Shareholders received US\$3.55 for every Fletcher Challenge Energy Share held, an entitlement of one fully paid Capstone Share for every 70 Fletcher Challenge Energy Shares held and one fully paid share in Rubicon for every Fletcher Challenge Energy Share held. The operations of Building, Energy and Paper are referred to within these financial statements as Discontinued Operations. As at 30 June 2001, the Statement of Financial Position includes balances for Discontinued Operations. These balances relate to the final settlement transactions required for the finalisation of the Fletcher Challenge Group separation process.

Fletcher Challenge Forests remains as the continuing business of Fletcher Challenge Limited, renamed Fletcher Challenge Forests Limited. Fletcher Challenge Forests Shareholders continue to hold existing Fletcher Challenge Forests Ordinary and Preference Shares in Fletcher Challenge Forests Limited. Fletcher Challenge Forests' business consists of solid wood plantation forestry and related downstream wood processing and distribution assets and operations. The operations of Fletcher Challenge Forests are referred to within these financial statements as Continuing Operations.

NOTES TO THE FINANCIAL STATEMENTS *continued***36 Discontinued Operations**

The following statements reflect the operating revenue, operating earnings, funding costs, the financial position and cash flows of the Discontinued Operations of Fletcher Challenge Building, Energy and Paper.

	2002	2001	2000
	NZ\$m	NZ\$m	NZ\$m
Operating Revenue			
Total Operating Revenue	–	4,002	7,908
Operating Revenue from Discontinued Operations	–	3,354	7,285
Operating Earnings			
Operating Earnings from Discontinued Operations includes:			
Net Losses on Disposal of Fixed Assets	–	-1	–
Amortisation of Goodwill and Intangibles	–	7	6
Depreciation and Depletions:			
Depreciation Charged	–	109	486
Depletions of Resource Extraction Assets	–	357	388
Non Plantation Forest Depletions	–	1	9
Unusual Items:			
Gain/(Loss) on Disposal of Affiliates ⁽¹⁾	–	254	105
Gain on Disposal of Fletcher Challenge Energy and Paper ⁽²⁾	–	1,126	–
Restructuring and Separation Costs ⁽³⁾	–	-119	-193
Permanent Impairment ⁽⁴⁾	–	-112	-30
Other Gains/(Losses) ⁽⁵⁾	–	-37	61
Research and Development	–	2	11
Bad Debts Written Off	–	6	11
Donations	–	1	3
Maintenance and Repairs	–	121	371
Operating Lease Expense	–	36	125
Forest Costs Capitalised	–	–	7
Auditors' Fees and Expenses Payable for:			
Statutory Audit			
PricewaterhouseCoopers	–	–	1
KPMG	–	–	4
Other Services			
PricewaterhouseCoopers	–	4	6
KPMG	–	4	5
Costs Incurred in Oil and Gas Acquisition, Exploration and Development Activities:			
Current Exploration Costs on Unproved Propsects (expensed)	–	29	27
Exploration Costs on Unproved Prospects (capitalised)	–	30	44
Development Costs (capitalised)	–	122	178

(1) Gain on Disposal of Affiliates related to the gain on the sale of shares in New Zealand Refining Company of \$25 million (June 2001), Capstone Turbine Corporation of \$220 million (June 2001), Petroz of \$9 million (June 2001), Natural Gas Corporation of \$113 million (June 2000) and the loss on sale of the Tasman Eucalypt Forest Estate of \$8 million (June 2000).

(2) Gain on Disposal of Fletcher Challenge Energy of \$686 million (June 2001) and Fletcher Challenge Paper of \$440 million (June 2001).

(3) Restructuring and Separation Costs related to costs of \$119 million (June 2001) and \$19 million (June 2000) associated with the separation of the Fletcher Challenge targeted share structure, costs of \$26 million (June 2000) associated with the September 1999 proposed merger of Fletcher Challenge Paper and the Group's 50.8 per cent owned subsidiary Fletcher Challenge Canada Limited, the write off of \$116 million (June 2000) upon the reorganisation of the Employee Educational Fund and costs of \$32 million (June 2000) associated with the Fletcher Challenge Paper South American capital restructure.

NOTES TO THE FINANCIAL STATEMENTS *continued***36 Discontinued Operations** *continued***Operating Earnings** *continued*

- (4) Permanent Impairment related to the Concrete operations in New Zealand of \$16 million (June 2001), Fletcher Challenge Building's owned properties in Auckland of \$13 million (June 2001), the Concrete operations in South America of \$70 million (June 2001), the Kupe oil and gas field of \$13 million (June 2001), Fletcher Challenge Building operations in Fiji of \$10 million (June 2000) and non core Fletcher Challenge Energy assets of \$20 million (June 2000).

Planning decisions led to a write-down of \$13 million (June 2001) in the value of Fletcher Challenge Building owned properties and a review of the Concrete operations resulted in restructuring of parts of the concrete business leading to a charge of \$16 million (June 2001). A review of the Concrete operations in South America resulted in a permanent impairment of \$70 million (June 2001). For June 2000, the political turmoil in Fiji had an immediate negative effect on the Fletcher Challenge Building operations. Accordingly, the carrying value of the fixed assets of \$27 million was reassessed, with a view to disposal within 12 months of balance date, and resulted in a permanent impairment of \$10 million.

The write-down in the Kupe oil and gas field of \$13 million (June 2001) followed a review based on the potential outcome of selling an interest in the field. For June 2000 following Fletcher Challenge Energy's focus on oil and gas exploration and production the carrying value of all non core assets was reviewed and resulted in a permanent impairment of \$20 million.

Fair value was determined based on discounted cash flows.

- (5) Other Gains/(Losses) related to provisions established in respect of a dispute over the construction of co-generation plants in Australia of \$37 million (June 2001) and the gain on the sale of the turbine marketing rights for the Capstone Turbine Corporation of \$61 million (June 2000).

	2002 NZ\$m	2001 NZ\$m	2000 NZ\$m
Funding Costs			
Interest payable on:			
Term Debt and Other Non Current Liabilities	-	105	354
Short Term Loans and Bank Overdrafts	-	2	25
Income from Short Term Deposits	-	-33	-76
	-	74	303
Net Interest Capitalised to Fixed Assets of Discontinued Operations	-	-	-6
Plus Share Registry and Issue Expenses	-	2	3
	-	76	300

NOTES TO THE FINANCIAL STATEMENTS *continued***36 Discontinued Operations** *continued***Statement of Financial Position***as at 30 June*

	2002	2001
	NZ\$m	NZ\$m
Assets		
Current Assets:		
Cash and Liquid Deposits	-	47
Debtors	-	9
Total Current Assets	-	56
Total Discontinued Operations Assets	-	56
Liabilities and Group Equity		
<i>Liabilities</i>		
Current Liabilities:		
Creditors	-	56
Total Current Liabilities	-	56
Total Discontinued Operations Liabilities	-	56
<i>Equity</i>		
Discontinued Operations Equity	-	-
Total Discontinued Operations Liabilities and Equity	-	56

For June 2001, the balances relate to final settlement transactions required for the finalisation of the Fletcher Challenge Group separation process.

NOTES TO THE FINANCIAL STATEMENTS *continued***36 Discontinued Operations** *continued***Statement of Cash Flows***for year ended 30 June*

	2002	2001	2000
	NZ\$m	NZ\$m	NZ\$m
Cash was Provided:			
From Operating Activities			
Receipts from Customers	-	3,353	7,091
Dividends and Distributions Received	-	10	12
Interest Received	-	57	73
Total Provided	-	3,420	7,176
Payment to Suppliers, Employees and Other	-	2,629	5,577
Interest Paid	-	142	386
Income Tax Paid	-	22	30
Total Applied	-	2,793	5,993
Net Cash from Operating Activities	-	627	1,183
From Investing Activities			
Sale of Fixed Assets	-	37	161
Sale of Investments	-	341	294
Sale of Fletcher Challenge Building, Energy and Paper	-	5,099	-
Sale of Subsidiaries	-	-	43
Less Cash in Subsidiaries Disposed	-	-1,632	-14
Total Provided	-	3,845	484
Purchase of Fixed Assets	-	274	589
Interest Paid Capitalised in Fixed Assets	-	-	6
Purchase of Investments	-	405	29
Purchase of Subsidiaries	-	50	2
Purchase of Minority Equity	-	-	14
Total Applied	-	729	640
Net Cash from Investing Activities	-	3,116	-156
From Financing Activities			
Issue of Shares	-	46	5
Issue of Capital Funds	-	119	-
Total Provided	-	165	5
Net Debt Settlements	-	4,165	676
Movement in Deferred Liabilities	-	7	14
Taxation Benefits Paid	-	33	-
Purchase of Capital Funds	-	656	56
Dividends and Distributions Paid to Group Stakeholders	-	90	212
Dividends Paid to Minority Shareholders	-	3	54
Total Applied	-	4,954	1,012
Net Cash from Financing Activities	-	-4,789	-1,007
Net Movement in Cash Held	-	-1,046	20
Add Opening Cash and Liquid Deposits	-	1,047	897
Effect of Exchange Rate Changes on Net Cash	-	46	130
Closing Cash and Liquid Deposits	-	47	1,047

NOTES TO THE FINANCIAL STATEMENTS *continued***36 Discontinued Operations** *continued***Reconciliation of Net Earnings to Net Cash from Operating Activities***for year ended 30 June*

	2002	2001	2000
	NZ\$m	NZ\$m	NZ\$m
Cash was Provided from:			
Net Earnings	-	1,270	346
Adjustment for Items not involving Cash:			
Depreciation, Depletions, Amortisation and Provisions	-	683	900
Interest Capitalised to Continuing Operations	-	-61	-56
Taxation	-	230	157
Minority Interest in Earnings of Subsidiaries	-	12	62
Equity Earnings	-	-1	18
Non Cash Adjustments	-	863	1,081
Cash Flow from Operations	-	2,133	1,427
Less Gain on Disposal of Affiliates and Fixed Assets	-	-1,378	-50
Cash Flow from Operations before Net Working Capital Movements	-	755	1,377
Net Working Capital Movements	-	-128	-194
Net Cash from Operating Activities	-	627	1,183

NOTES TO THE FINANCIAL STATEMENTS *continued***36 Discontinued Operations** *continued***Options on Share Capital****Fletcher Challenge Building Options**

As a result of the separation of the Fletcher Challenge targeted share structure, Fletcher Challenge determined it was appropriate to offer a cash payment (calculated by reference to the fair value of the option) to holders of Fletcher Challenge Building Options in consideration for bringing forward the exercise date of their options. As a consequence, Fletcher Challenge Building Options have now lapsed.

	2002		2001		2000	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Options outstanding at the beginning of the year	–	–	7,704,517	\$4.19	7,283,201	\$4.30
Options granted during the year where the exercise price exceeds the market price of shares (at grant date)	–	–	–	–	641,890	\$2.41
Options lapsed during the year	–	–	-7,702,127	\$4.29	–	–
Options forfeited during the year	–	–	-2,390	\$5.66	-220,574	\$4.93
Options outstanding at the end of the year	–	–	–	–	7,704,517	\$4.19
Options exercisable at the end of the year	–	–	–	–	4,340,816	\$4.98
Options not exercisable due to exercise period not yet reached	–	–	–	–	3,363,701	\$3.18
Weighted average remaining contractual life of outstanding options		–		–		5 years
Total Compensation Cost recognised in income		–		–		\$1m
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

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:

		2002 Weighted Average Value	2001 Weighted Average Value	2000 Weighted Average Value
Estimated life of options	years	–	–	10
Estimated volatility of options	%	–	–	35.0
Estimated dividends per share	cents	–	–	20.9

NOTES TO THE FINANCIAL STATEMENTS *continued***36 Discontinued Operations** *continued***Options on Share Capital** *continued***Fletcher Challenge Energy Options**

Following the announcement of the proposed sale of Fletcher Challenge Energy and in accordance with their terms of issue, all outstanding options over Fletcher Challenge Energy Shares became exercisable. Accordingly, all Fletcher Challenge Energy Options were either exercised, lapsed or forfeited.

	2002		2001		2000	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Options outstanding at the beginning of the year	–	–	9,845,815	\$5.31	9,488,030	\$5.14
Options granted during the year where the exercise price exceeds the market price of shares (at grant date)	–	–	–	–	1,148,715	\$5.15
Options exercised during the year	–	–	-9,483,626	\$5.55	-455,403	\$4.08
Options lapsed during the year	–	–	-359,800	\$4.61	–	–
Options forfeited during the year	–	–	-2,389	\$6.01	-335,527	\$5.99
Options outstanding at the end of the year	–	–	–	–	9,845,815	\$5.31
Options exercisable at the end of the year	–	–	–	–	6,942,836	\$5.61
Options not exercisable due to exercise period not yet reached	–	–	–	–	2,902,979	\$4.59
Weighted average remaining contractual life of outstanding options		–		–		4 years
Total Compensation Cost recognised in income		–		–		\$1m
Weighted average fair value of options granted during the year where the exercise price exceeds the market price of shares (at grant date)		–		–		\$0.30

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:

		2002 Weighted Average Value	2001 Weighted Average Value	2000 Weighted Average Value
Estimated life of options	years	–	–	5
Estimated volatility of options	%	–	–	40.0
Estimated dividends per share	cents	–	–	22.4

NOTES TO THE FINANCIAL STATEMENTS *continued***36 Discontinued Operations** *continued***Options on Share Capital** *continued***Fletcher Challenge Paper Options**

At June 2000, as Fletcher Challenge had entered into an agreement to sell Fletcher Challenge Paper to Norske Skog, Fletcher Challenge made a cash payment during the year (calculated by reference to the fair value of the option) to Fletcher Challenge Paper Share option holders in consideration for bringing forward the exercise date of their Fletcher Challenge Paper Options. As a consequence, all Fletcher Challenge Paper Options lapsed.

	2002		2001		2000	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Options outstanding at the beginning of the year	-	-	-	-	8,799,859	\$3.77
Options granted during the year where the exercise price exceeds the market price of shares (at grant date)	-	-	-	-	39,300	\$1.43
Options lapsed during the year	-	-	-	-	-8,839,159	\$3.84
Options outstanding at the end of the year	-	-	-	-	-	-
Total Compensation Cost recognised in income		-		-		\$2m
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

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:

		2002 Weighted Average Value	2001 Weighted Average Value	2000 Weighted Average Value
Estimated life of options	years	-	-	10
Estimated volatility of options	%	-	-	40.0
Estimated dividends per share	cents	-	-	4.5

REPORT OF THE AUDITORS*to the Shareholders of Fletcher Challenge Forests Limited*

We have audited the financial statements as expressed in New Zealand dollars on pages 34 to 87. The financial statements provide information about the past financial performance and cash flows of the Company and Group for the year ended 30 June 2002 and their financial position as at that date. This information is stated in accordance with the accounting policies set out on pages 34 to 37.

Directors' Responsibilities

The Company's Directors are responsible for the preparation and presentation of the financial statements which give a true and fair view of the financial position of the Company and Group as at 30 June 2002 and their financial performance and cash flows for the year ended on that date.

Auditors' Responsibilities

We are responsible for expressing an independent opinion on the financial statements presented by the Directors and reporting 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:

- (a) the significant estimates and judgements made by the Directors in the preparation of the financial statements; and
- (b) whether the accounting policies are appropriate to the circumstances of the Company and Group, consistently applied and adequately disclosed.

We conducted our audit in accordance with generally accepted auditing standards in New Zealand. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary to provide us with 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.

The firm carries out other assignments for the Company and certain of its subsidiaries in the areas of taxation compliance, financial assurance and advisory services. The firm has no other relationship with or interests in the Company or any of its subsidiaries.

Unqualified Opinion

We have obtained all the information and explanations we have required.

In our opinion:

- (a) proper accounting records have been kept by the Company as far as appears from our examination of those records; and
- (b) the financial statements as expressed in New Zealand dollars on pages 34 to 87:
 - comply with generally accepted accounting practice in New Zealand; and
 - give a true and fair view of the financial position of the Company and Group as at 30 June 2002 and their financial performance and cash flows for the year ended on that date.

Our audit was completed on 22 August 2002 and our unqualified opinion is expressed as at that date.

A handwritten signature in cursive script that reads "PricewaterhouseCoopers".

STATUTORY DISCLOSURE

Directors' Interests Register

Directors' certificates to cover entries in the Interests Register in respect of remuneration, dealing in the Company's securities, insurance and other interests have been disclosed as required by the New Zealand Companies Act 1993.

Non-Executive Directors' Remuneration

Non-Executive Directors' base remuneration was set in April 2001, and is \$50,000 per annum with the Chairman receiving \$125,000 per annum.

The aggregate amount of fees paid by Fletcher Challenge Forests Limited to Non-Executive Directors for services in their capacity as Directors during the year ended 30 June 2002 was \$417,500.

Fees, prior to any taxation liability, paid to individual Non-Executive Directors in the year ended 30 June 2002 were:

	<i>Base Fee</i>	<i>Committee Chairman</i>	<i>Total Fee</i>
M J Andrews	50,000	–	50,000
R H Fisher	50,000	–	50,000
S N Hurley	50,000	–	50,000
W A Larsen	50,000	–	50,000
S L Moriarty	37,500	–	37,500
D T Spring	125,000	–	125,000
M C Walls	50,000	5,000	55,000
Total	\$412,500	\$5,000	\$417,500

In addition, Due Diligence Committee costs were received by the following Non-Executive Directors:

M J Andrews	1,950
R H Fisher	2,600
W A Larsen	–
M C Walls	4,550
Total	\$9,100

Executive Director's Remuneration for the year ended 30 June 2002

	<i>Salary</i>
T N McFadgen	\$751,000

Mr McFadgen is a contributing member of the Fletcher Challenge Forests Retirement Plan and accrued benefits under that Plan. Company contributions made on his behalf to the Plan during the year totalled \$122,830.

In addition to the above salary of \$751,000, Mr McFadgen was paid a bonus of \$260,000 in September 2002 for the year ended June 2002.

Executive Directors do not receive remuneration as Directors of Fletcher Challenge Forests Limited or Group subsidiaries.

Incentive Remuneration

The Company operates an incentive remuneration scheme for the Chief Executive and other senior executives, each of whom has an annual performance plan. The Company's incentive remuneration scheme is tied to performance relative to that plan.

STATUTORY DISCLOSURE *continued***Subsidiary Company Directors**

Section 211(2) of the New Zealand Companies Act 1993 requires the Company to disclose, in relation to its subsidiaries, the total remuneration and value of other benefits received by Directors and former Directors and particulars of entries in the interests registers made during the year ended 30 June 2002.

Apart from some overseas subsidiaries which have independent Directors or are required to have a specific number of local residents as Directors, no subsidiary except Tarawera Forests Limited and certain nominee companies, has Directors who are not full-time employees of the Group.

No employee of the Fletcher Challenge Forests Limited Group appointed as a Director of Fletcher Challenge Forests Limited or its subsidiaries receives or retains any remuneration or other benefits as a Director.

The remuneration and other benefits of such employees, received as employees, are included in the relevant bandings for remuneration disclosed in the Notes to the Financial Statements, where the employee received remuneration and other benefits totalling \$100,000 or more during the year ended 30 June 2002.

Except where shown below, no other Director of any subsidiary company within the Group receives Director's fees or other benefits as a Director.

The following persons respectively held office as directors of subsidiary companies at the end of the year or in the case of those persons with the letter (R) after their name ceased to hold office during the year. Alternate directors are indicated by the letter (A) after their name.

Fletcher Challenge Forests Finance Limited

I R Boyd, J A Dell, P M Gillard, T N McFadgen, M K Eglinton (R)

Fletcher Challenge Forests Industries Limited

I R Boyd, J A Dell, P M Gillard, T N McFadgen, M K Eglinton (R)

Fletcher Challenge Forests (Manufacturing) Limited

I R Boyd, J A Dell, P M Gillard, T N McFadgen, M K Eglinton (R)

Fletcher Challenge Forests New Zealand Limited

I R Boyd, J A Dell, P M Gillard, T N McFadgen, M K Eglinton (R)

Fletcher Challenge Finance Limited

I R Boyd, J A Dell, P M Gillard, T N McFadgen, M K Eglinton (R)

Fletcher Challenge Industries Limited

I R Boyd, J A Dell, P M Gillard, T N McFadgen, M K Eglinton (R)

Fletcher Challenge Limited

I R Boyd, J A Dell, P M Gillard, T N McFadgen, M K Eglinton (R)

Kaingaroa Holdings Limited

I R Boyd, J A Dell, P M Gillard, T N McFadgen, M K Eglinton (R)

Silvamare Shipping Services Limited

I R Boyd, J A Dell, P M Gillard, T N McFadgen, M K Eglinton (R)

Tarawera Forests Limited

R B Adlam (\$18,000), A F Bond, I R Boyd, I W Brown, W K J McCallum, G M Park (\$14,000), J-C A Schell (\$18,000)

Woodlink Limited

I R Boyd, J A Dell, P M Gillard, T N McFadgen, M K Eglinton (R), T H Nickels (R), C J H Chia (R), G D Stebbing (R), A B N Gray (R)

CNI Forest Nominees Limited

I R Boyd, J A Dell, P M Gillard, T N McFadgen, M K Eglinton (R)

Fletcher Challenge Forests Nominees Limited

D M Harris, J McDonald, G D Niccol, D C Robertson, G D Stebbing

Fletcher Challenge Forests Trust Nominees Limited

I R Boyd, A C Grinter, G W Hall, J McDonald, R D Te Whare

Fletcher Forests Welfare Fund Nominees Limited

I R Boyd, G D Niccol, D H Sixton

Fletcher Challenge Forests (Japan) KK

M D Bryan, A B N Gray, R Miyakita, N Sawai

Fletcher Challenge Forests USA, Inc.

J A Dell, M K Eglinton, R A Johnson, J McDonald (R), M W Plom (R), M A Taylor (R)

Forestry Corporation of New Zealand Limited (in Receivership)

I R Boyd, T N McFadgen, S D Judson (R)

Red Stag Mouldings Limited (in Receivership)

I R Boyd, T N McFadgen, S D Judson (R)

Red Stag Wood Products Limited (in Receivership)

I R Boyd, T N McFadgen, S D Judson (R)

Blue Tree Limited

I R Boyd, J A Dell, P M Gillard, T N McFadgen

Kaingaroa Timber Company Limited

I R Boyd, J A Dell, P M Gillard, T N McFadgen

STATUTORY DISCLOSURE *continued***Directors' Interests**

In accordance with Section 140(2) of the Companies Act 1993, Directors have advised the following changes in their interests:

M J Andrews

Trade New Zealand	Appointed	Director
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R H Fisher

Eurotech Group Limited	Appointed	Chairman
Wilson Home Trust	Resigned	Trustee

W A Larsen

Air New Zealand Limited	Appointed	Director
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S L Moriarty

Rubicon Limited	Initial advice	Director and CEO
The Moriarty Family Trust	Initial advice	Trustee

Sir Dryden Spring

Asia 2000 Federation of NZ	Appointed	Chairman
Goodman Fielder Limited	Appointed	Acting Chairman
Goodman Fielder Limited	Resigned	Acting Chairman

M C Walls

ABN AMRO New Zealand Limited	Resigned	Special Consultant
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Contracts

T N McFadgen's appointment as Chief Executive is for a period of 2½ years expiring 1 April 2003.

Information Used by Directors

None of the Directors have requested, under Section 145 of the Companies Act 1993, to use any information given to them in their capacity as Directors, for any other purpose.

Directors' and Officers' Indemnity and Insurance

In accordance with section 162 of the Companies Act 1993 and the Constitution of the Company, the Company has given indemnities to, and has effected insurance for, Directors and Executives of the Company and its related companies which, except for specific matters which are expressly excluded, indemnify and insure directors and executives against monetary losses as a result of actions or omissions by them in the course of their duties. Specifically excluded from the indemnity are actions for criminal liability or breach of the director's duty to act in good faith and in what the director believes to be the best interests of the company.

On 30 June 2002 the Company effected directors' and officers' liability insurance through American International Group with an aggregate limit of liability of US\$40,000,000.

On 24 July 2002 the Company effected statutory liability insurance through American International Group with an aggregate limit of liability of \$5,000,000.

Dealing in Company Securities

The Company's Securities Trading Code of Conduct for insider trading supplements the New Zealand legislation containing the Insider Trading (Approved Procedure for Company Officers) Notice 1996. That legislation and the Securities Trading Code of Conduct prevent short-term trading and dealing in the Company's securities whilst Directors and senior executives are in possession of non-public material and relevant information.

During the financial year Directors disclosed in respect of Section 148(2) of the Companies Act 1993 the details scheduled on page 93.

STATUTORY DISCLOSURE *continued***New Zealand Stock Exchange Disclosure**

On 14 June 2002 the Market Surveillance Panel of the New Zealand Stock Exchange granted the Company waivers from Listing Rules 10.2.3(d), 11.1.1 and 11.1.4 in connection with the Company's change of listing status on the Australian Stock Exchange Limited.

Listing Rule 10.2.3(d) requires all company announcements for release to the market by the New Zealand Stock Exchange, to be released to the New Zealand Stock Exchange at least 30 minutes prior to their public release. The Market Surveillance Panel granted a waiver from Listing Rule 10.2.3(d) for a period of six months, to allow the Company to release announcements to both the Australian Stock Exchange Limited and the New Zealand Stock Exchange, simultaneously. The waiver was granted on the condition that certain protocols in relation to announcements be followed by the Company.

Listing Rule 11.1 relates to the transfer of securities. The Market Surveillance Panel granted waivers from Listing Rules 11.1.1 and 11.1.4 in order to accommodate Australian Stock Exchange Listing Rule 15.12, which prevents the transfer of restricted securities during an escrow period. Under the Australian Stock Exchange Listing Rules, restricted securities can be issued in a number of circumstances including, for example, as consideration for the purchase of a speculative asset.

Donations

Donations totalling \$82,509 were made during the year.

Credit Rating

Fletcher Challenge Forests has not sought a credit rating.

Australian Stock Exchange Disclosure

Fletcher Challenge Forests is incorporated in New Zealand.

Fletcher Challenge Forests is not subject to Chapters 6, 6A, 6B and 6C of the Corporations Act dealing with the acquisition of shares (such as substantial holdings and takeovers).

Limitations on the acquisition of the securities imposed by the jurisdiction in which Fletcher Challenge Forests is incorporated (i.e. New Zealand law) are:

- (a) In general securities in Fletcher Challenge Forests are freely transferable and the only significant restrictions or limitations in relation to the acquisition of securities are those imposed by New Zealand laws relating to takeovers, overseas investment and competition.
- (b) The New Zealand Takeovers Code creates a general rule under which the acquisition of more than 20 per cent of the voting rights in Fletcher Challenge Forests or the increase of an existing holding of 20 per cent or more of the voting rights in Fletcher Challenge Forests can only occur in certain permitted ways. These include a full takeover offer in accordance with the Takeovers Code, a partial takeover offer in accordance with the Takeovers Code, an acquisition approved by an ordinary resolution, an allotment approved by an ordinary resolution, a creeping acquisition (in certain circumstances) or compulsory acquisition if a shareholder holds 90 per cent or more of the voting rights in Fletcher Challenge Forests.
- (c) The New Zealand Overseas Investment Act 1973 and Overseas Investment Regulations 1995 regulate certain investments in New Zealand by overseas persons. In general terms the consent of the New Zealand Overseas Investment Commission is likely to be required where an "overseas person" acquires shares or an interest in shares in Fletcher Challenge Forests that amount to more than 25 per cent of the shares issued by Fletcher Challenge Forests or, if the overseas person already holds 25 per cent or more, the acquisition increases that holding.
- (d) The New Zealand Commerce Act 1986 is likely to prevent a person from acquiring shares in Fletcher Challenge Forests if the acquisition would have, or would be likely to have, the effect of substantially lessening competition in a market.

Subject to any voting restrictions set out in the Listing Rules of the New Zealand or Australian Stock Exchanges or attached to any share, each ordinary shareholder is entitled to one vote on a show of hands and one vote per ordinary share on a poll. Each preference shareholder has the same voting rights as a holder of an ordinary share and ordinary and preference shareholders vote together on all matters except on a vote relating to liquidation of the Company, in which case a separate vote of the holders of preference shares is required.

There are no current on-market buy-backs of Fletcher Challenge Forests shares.

The registered office of Fletcher Challenge Forests in Australia is at McBurney and Partners, Chartered Accountants, Level 7, 20 Loftus Street, Sydney, NSW 2000, telephone 612 9241 2651.

STATUTORY DISCLOSURE *continued***Directors' Holdings – Equity Securities**
Fletcher Challenge Forests Ordinary Shares

	30 June 2002			30 June 2001		
	<i>Beneficial</i>	<i>Non Beneficial</i>	<i>Associated Persons</i>	<i>Beneficial</i>	<i>Non Beneficial</i>	<i>Associated Persons</i>
M J Andrews	–	–	159,249	–	–	159,249
R H Fisher	–	–	–	–	–	–
W A Larsen	100,000	–	1,007	100,000	–	1,007
T N McFadgen	570,098	–	–	570,098	–	–
S L Moriarty	–	34,025	–	–	–	–
D T Spring	2,500	–	–	2,500	–	–
M C Walls	–	–	–	–	–	–
	672,598	34,025	160,256	672,598	–	160,256

Fletcher Challenge Forests Preference Shares

	30 June 2002			30 June 2001		
	<i>Beneficial</i>	<i>Non Beneficial</i>	<i>Associated Persons</i>	<i>Beneficial</i>	<i>Non Beneficial</i>	<i>Associated Persons</i>
M J Andrews	–	–	318,498	–	–	318,498
R H Fisher	10,000	–	–	10,000	–	–
W A Larsen	–	–	2,014	–	–	2,014
T N McFadgen	1,140,197	–	–	1,140,197	–	–
S L Moriarty	–	68,050	–	–	–	–
D T Spring	23,750	–	–	23,750	–	–
M C Walls	30,000	–	–	–	–	–
	1,203,947	68,050	320,512	1,173,947	–	320,512

Disclosure of Directors' Dealings

<i>Director</i>	<i>Date</i>	<i>Securities Acquired/(Disposed of)</i>		<i>Price</i>	
		<i>Forests Ordinary</i>	<i>Forests Preference</i>	<i>Forests Ordinary</i>	<i>Forests Preference</i>
S L Moriarty	21 Sep 01	34,025	68,050	Initial Advice	Initial Advice
M C Walls	28 Aug 01	–	30,000	–	0.32

SHAREHOLDER STATISTICS

Largest Shareholders

The 20 known shareholders in each share class with the largest holdings of shares as at 30 August 2002 were:

	<i>Fletcher Challenge Forests Ordinary</i>	<i>% of Fletcher Challenge Forests Ordinary</i>	<i>Fletcher Challenge Forests Preference</i>	<i>% of Fletcher Challenge Forests Preference</i>
New Zealand Central Securities Depository Limited	323,914,827	34.85	621,808,925	33.45
Rubicon Forest Holdings Limited	75,000,000	8.07	417,148,663	22.44
Fletcher Challenge Building Trust Nominees Limited	12,318,476	1.33		
Ithaca (Custodians) Limited	2,200,000	0.24	58,326,267	3.14
Yarrow Consulting Limited	7,979,194	0.86	21,721,610	1.17
Citicorp Nominees Pty Limited	10,094,132	1.09	21,283,372	1.14
Fletcher Challenge Custodians Limited	8,594,125	0.92		
NZ Home Lease No 2 Limited			18,857,553	1.01
Investment Custodial Services Limited	3,600,569	0.39		
Hsu-Cheng Yang	2,560,000	0.28	6,000,000	0.32
Fletcher Challenge Forests Trust Nominees	2,973,425	0.32	5,946,850	0.32
ANZ Nominees Limited			5,900,000	0.32
Jarden Custodians Limited			5,000,000	0.27
Peter Milliken	2,140,000	0.23		
ASB Nominees Limited	2,000,000	0.22		
First NZ Securities Nominees Limited	1,448,670	0.16	4,311,786	0.23
Value Plus Homes Limited – HTV Investments			3,829,424	0.21
Patrick Wang			3,650,000	0.20
Frater Williams Custodial Services Limited			3,249,000	0.17
Robin MacDonald Smith			3,200,000	0.17
Guardian Assurance Limited (Equity Fund)			3,127,384	0.17
First NZ Capital Equities Limited			3,003,362	0.16
Dietrich Westphal	1,510,500	0.16		
Yao-Tsung Yang	1,450,000	0.16		
Agrivest Limited	1,395,000	0.15		
David Maurice Hodson			3,000,000	0.16
Peter Hanbury Masfen & Joanna Alison Masfen			3,000,000	0.16
Chung Tung Yeh & Chang Chueh Chu Yeh			3,000,000	0.16
Saloman Smith Barney New Zealand Limited	1,378,913	0.15		
Tecity Management Pte Limited	1,320,280	0.14		
Imperator Investments Limited	1,273,505	0.14		
Forsyth Barr Limited	1,035,629	0.11		
	464,187,245	49.94	1,215,364,196	65.38

New Zealand Central Securities Depository Limited (“NZCSD”) is a depository system which allows electronic trading of securities to its members. At 30 August 2002, the 10 largest shareholdings in each share class held through NZCSD were:

	<i>Fletcher Challenge Forests Ordinary</i>	<i>% of Fletcher Challenge Forests Ordinary</i>	<i>Fletcher Challenge Forests Preference</i>	<i>% of Fletcher Challenge Forests Preference</i>
Citibank Nominees (New Zealand) Limited	115,178,880	12.39	101,536,039	5.46
Westpac Banking Corporation – Client Assets No 2	82,461,308	8.87	166,843,192	8.97
National Nominees New Zealand Limited	59,568,537	6.41	83,492,501	4.49
HSBC Nominees (NZ) Limited	27,718,032	2.98		
ANZ Nominees Limited	10,451,962	1.12	23,652,435	1.27
AMP Superannuation Tracker Fund	6,318,239	0.68	12,700,502	0.68
AXA New Zealand Nominees Limited	6,099,769	0.66		
The National Mutual Life Assurance of Australia	5,148,025	0.55	38,065,687	2.05
TEA Custodians Limited – NZ Mid Cap Index Fund	2,285,263	0.25		
Westpac Nominees (NZ) Limited	1,572,187	0.17		
The Trustees Executors & Agency Company of NZ Limited			35,733,494	1.92
AMP Life Limited			22,254,428	1.20
AMP Investments Strategic Equity Growth Fund			18,716,295	1.01
Accident Compensation Corporation			14,433,000	0.78
	316,802,202	34.08	517,427,573	27.83

SHAREHOLDER STATISTICS *continued***Distribution of Shares – 30 August 2002**

Size of Holdings	Fletcher Challenge Forests Ordinary Shareholders		Fletcher Challenge Forests Preference Shares	
	Number	%	Million	%
1 – 999	14,509	31.4	7	0.7
1,000 – 4,999	16,470	35.7	37	4.0
5,000 – 9,999	5,286	11.4	35	3.8
10,000 – 49,999	7,975	17.3	152	16.4
50,000 – 99,999	1,049	2.3	67	7.2
100,000 – 499,999	783	1.7	132	14.2
500,000 – 999,999	49	0.1	31	3.3
1,000,000 and over	40	0.1	469	50.4
	46,161	100.0	930	100.0

As at 30 August 2002, 22,165 holders of Ordinary shares and 6,889 holders of Preference shares held less than the minimum holding of 2,000 shares under NZSE listing rules in each case.

Supplemental Australian Stock Exchange Disclosure – 30 August 2002

Size of Holdings	Fletcher Challenge Forests Ordinary Shareholders	Fletcher Challenge Forests Preference Shareholders
1 – 1,000	15,710	3,744
1,001 – 5,000	16,246	8,981
5,001 – 10,000	5,839	3,950
10,001 – 100,000	7,687	7,485
100,001 and over	679	1,117
	46,161	25,277

As at 30 August 2002, 25,344 Ordinary shareholders and 8,852 Preference shareholders held less than a marketable parcel of A\$500 worth of securities.

Domicile of Registered Beneficial Owners*

	Fletcher Challenge Forests Ordinary Million	%	Fletcher Challenge Forests Preference Million	%
New Zealand	597.3	64.3%	1,396.2	75.1%
United States of America	204.2	22.0%	277.6	14.9%
Australia	30.3	3.3%	107.3	5.8%
United Kingdom/Europe	74.4	8.0%	47.3	2.5%
Canada	1.2	0.1%	1.4	0.1%
Asia/Japan	20.7	2.2%	27.5	1.5%
Other	1.4	0.1%	1.7	0.1%
	929.5	100.0%	1,859.0	100.0%

*Based on information received in response to notices under sections 28 and 29 of the New Zealand Securities Amendment Act 1998.

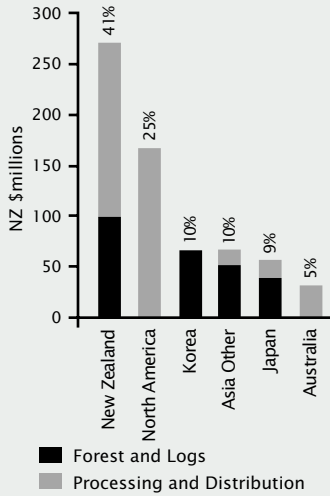
Substantial Security Holders

As at 31 August 2002 the following persons have given notice (in terms of the New Zealand Securities Amendment Act 1988) that they are substantial security holders in Fletcher Challenge Forests. In terms of the Act, the number of Fletcher Challenge Forests Ordinary and Preference Shares shown below is as last advised to Fletcher Challenge Forests by the substantial security holder.

	Fletcher Challenge Forests Ordinary Shares	Fletcher Challenge Forests Preference Shares	% of Fletcher Challenge Forests Shares
Rubicon Limited	75,000,000	417,148,163	17.6
Xylem Fund I, L.P.	67,751,894	135,503,788	7.3
Total issued voting shares	929,507,897	1,859,015,794	

FORESTS AT A GLANCE

Sales Analysis by Region
Twelve months to June 2002



New Zealand

Logs, lumber, panels and outdoor treated products for building/construction and industrial use. Wood chips for industrial use.

North America

Mouldings, appearance grade lumber and other products for the housing and do-it-yourself markets.

Japan, Korea, Asia Other

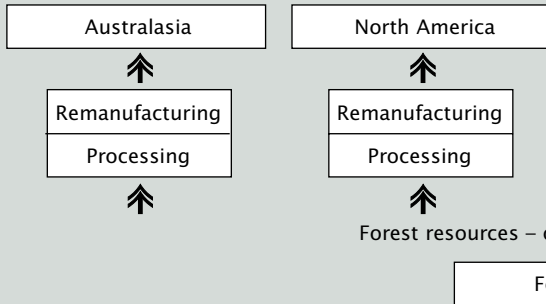
Logs and lumber for temporary construction, packaging, furniture and pulp. Woodchips for industrial use.

Australia

Lumber and panels for building/construction.

Customer Based Structure

Consumer Solutions



Commodity Products



Forest resources – owned, managed and third party

Forest and Logs

FORESTS AT A GLANCE *continued***Manufacturing**

<i>Processing Sites</i>	<i>Products</i>	<i>Capacity (m³/year)</i>
Fletcher Challenge Forests		
Kawerau Sawmill	Kiln-dried machine stress-graded framing for New Zealand and Australia. Feedstock for Kawerau Remanufacturing Plant.	250,000
Rainbow Mountain Sawmill	Kiln-dried visually graded framing for New Zealand and Australia. Outdoor treated lumber products.	150,000
Taupo Sawmill	North American appearance grades. Feedstock for Taupo Mouldings Plant.	200,000
Mt Maunganui Plywood Mill	Standard and treated structural plywood. Dried veneer. Joist I-beams.	36,000
Kawerau Remanufacturing Plant	Finger-jointed and laminated lumber for Australasian housing markets.	35,000
Taupo Mouldings Plant	Solid lineal mouldings for North American homes.	32,000
Ramsey Roundwood	Posts and poles, landscaping and outdoor treated products.	60,000
Total		763,000

CNIFP (in Receivership)

Waipa Sawmill*	Structural Douglas fir lumber. Australia, New Zealand and Asia appearance grades. New Zealand and Asia packaging.	250,000
Waipa Remanufacturing Plant*	Finger-jointed appearance grade products for Australasia and Asia.	44,000
Mt Maunganui Wood Processing*	Blanks and finger-jointed mouldings.	26,000
Total		320,000

*Fletcher Challenge Forests manages these plants.

Forest and Logs

	<i>Planted Area hectares</i>	<i>2002 Harvest m³</i>
Fletcher Challenge Forests		
Owned	108,500	1,650,000
Managed	8,500	100,000
	117,000	1,750,000
CNIFP (in Receivership)		
Managed	162,000	3,400,000
Total	279,000	5,150,000
Total in acres	690,000	
Total in thousand board feet		1,030,000

INVESTOR INFORMATION

Fletcher Challenge Forests reports six-monthly for the half year (to 31 December) and full year (to 30 June).

Copies of the Interim and Annual Reports are available on the Company's website, www.fcf.co.nz.

2002-2003 Calendar:

- Release of Annual Results: 22 August 2002
- Mailing of Annual Report: October 2002
- Postal voting and Proxy deadline for Annual Shareholders' Meeting: 2:00 pm, 11 November 2002
- Half Year End: 31 December 2002
- Interim Results Announcement: February 2003
- Financial Year End: 30 June 2003

Annual Shareholders' Meeting:

The Annual Shareholders' Meeting of Fletcher Challenge Forests Limited will be held at Eden Park, ASB Bank Stand, Walters Road, Auckland, New Zealand, at 2:00 pm on Wednesday 13 November 2002.

Dividend:

There is no 2002 dividend for Fletcher Challenge Forests shareholders.

Preference Shares:

Fletcher Challenge Forests Limited has two classes of shares: Ordinary and Preference. The Preference shares rank equally with the Ordinary shares in all respects (including dividend and voting rights) except that the Preference shares have prior ranking (to the amount of NZ\$0.25 per share) in the event of a liquidation of the Company, for a period of five years from allotment (15 December 2000).

Removal from Mailing List:

Shareholders who do not wish to continue receiving the Interim Report should advise their share registry in writing. (The share registry addresses are elsewhere on this page.) The Annual Report will continue to be mailed to all registered shareholders in line with statutory requirements.

Share Registry Enquiries:

Shareholders with enquiries about share transactions, changes of address or dividend payments should contact the share registrar in the country in which their shares are registered. Shareholders who hold shares on the New Zealand register can access the Computershare website www.computershare.com and check their shareholding online. Enquirers should select *New Zealand* from the drop-down list and then click on *Quick Links* – *View shareholding*. They can then select Fletcher Challenge Forests, and enter their shareholder number and FIN.

New Zealand

Computershare Investor Services Ltd
Private Bag 92-119,
Auckland 1020, New Zealand

Level 2, 159 Hurstmere Road,
Takapuna, North Shore City

Telephone: 64-9-488-8777

Facsimile: 64-9-488-8787

E-mail: crsnz@computershare.co.nz

Australia

Computershare Investor Services Pty Ltd
GPO Box 7045,
Sydney, NSW 2001, Australia

Level 3, 60 Carrington Street,
Sydney, NSW 2000

Telephone: 61-2-8234-5000

Facsimile: 61-2-8234-5050

INVESTOR INFORMATION *continued***United States**

American Depositary Receipts: Fletcher Challenge Forests Limited shares are traded in the USA on the NYSE in the form of American Depositary Shares (ADSs) and held in the form of American Depositary Receipts (ADRs). Each ADS represents 10 Forests ADR shares.

Fletcher Challenge Forests Limited has two ADR programmes:

- (a) CUSIP No. 339324420
Ratio: 10 Forests common shares to 1 Forests ADR
- (b) CUSIP No. 339324704
Ratio: 10 Forests Series A shares to 1 Forests ADR

The two classes of share (common and Series A) rank equally in all respects (including dividend and voting rights) except that the Series A share has prior ranking (to the amount of NZ\$0.25 per share) in the event of a liquidation of the company, for a period of five years from allotment (15 December 2000).

The ADR programmes are administered by Citibank, N.A.

To obtain further information about the programmes please contact:

Citibank, N.A.
Depositary Receipts Services
20th Floor, 111 Wall Street,
New York, NY 10005, USA

Telephone in USA or Canada:
1 877 citi adr (1-877-248-4237) (toll free)

E-mail: citibank@em.fcnbd.com
Website: www.citibank.com/adr

Other Investor Enquiries:***New Zealand or Internationally***

Investor Relations Manager
Fletcher Challenge Forests Limited
Private Bag 92-036,
Auckland 1030,
New Zealand

Telephone: 64-9-571-9800

Facsimile: 64-9-571-9871

E-mail: investor-relations@fcf.co.nz

Corporate Headquarters and Registered Office:

Fletcher Challenge Forests Limited
8 Rockridge Avenue,
Penrose, Auckland, New Zealand

Postal Address:

Private Bag 92-036,
Auckland 1030, New Zealand

Telephone: 64-9-571-9800

Facsimile: 64-9-571-9801

Websites:

www.fcf.co.nz
www.origin.co.nz
www.fcfusa.com
www.redwoods.co.nz

Share Listings:

	<i>New Zealand & Australian Stock Exchanges</i>	<i>New York Stock Exchange</i>
Ordinary shares	FFS	FFS
Preference shares	FFSPA	FFS.A

Share Capital (number of shares):

Ordinary shares ⁽¹⁾	922,207,133
Preference shares	1,859,015,794
Total shares	2,781,222,927

(1) Excludes 7,300,764 fully paid shares held by the Fletcher Challenge Forests Employee Share Purchase Scheme, accounted for under the Treasury Stock method.

INVESTOR INFORMATION *continued***Directors:**

Sir Dryden Spring, DSc (Hon) (*Chairman*)
 Michael John Andrews, MNZIF
 Rodger Herbert Fisher, FCIS
 Warren Arthur Larsen, MAgSc (Hons), BBS, CA
 Terrence Noel McFadgen, LLB (Hons) (Auckland), LLM (Harvard)
 Simon Luke Moriarty, MS (Stanford), LLB (Hons), BCA
 Michael Carmody Walls, BA, LLB (VUW), LLM (London)

Senior Management:

Terry McFadgen, Chief Executive
 Ian Boyd, Chief Operating Officer and General Manager, Forest and Logs
 John Dell, Chief Financial Officer
 Mark Eglinton, General Manager, North American Consumer Solutions
 Paul Gillard, Company Secretary, General Counsel and Communications Manager
 Tom Nickels, General Manager, Australasian & Asian Consumer Solutions

Auditors:

PricewaterhouseCoopers
 188 Quay Street,
 Auckland, New Zealand

Solicitors:

Bell Gully
 Royal & SunAlliance Centre,
 48 Shortland Street,
 Auckland, New Zealand

Simpson Grierson
 Simpson Grierson Building,
 92-96 Albert Street,
 Auckland, New Zealand

Number of Employees and Contractors:

As at June 2002 the Company had 1,555 employees (wage/salary) and approximately 2,500 contractors.

Forward-Looking Statements:

Except to the extent that they relate to historical information, there are statements included in this document which are "forward-looking statements" as defined in the US Private Securities Litigation Reform Act of 1995, and they are included herein in reliance upon the safe harbours created by that Act. These forward-looking statements include, but are not limited to, statements under the headings "Chairman's Letter", "Chief Executive's Letter" and "Management's Discussion and Analysis". As forward-looking statements are predictive in nature, they are subject to a number of risks and uncertainties relating to Fletcher Challenge Forests, its operations, the markets in which it competes and other factors (some of which are beyond the control of Fletcher Challenge Forests). As a result of the foregoing, actual results and conditions may differ materially from those expressed or implied by such statements. In particular Fletcher Challenge Forests' operations and results are significantly influenced by the level of building and export activity in the various sectors of the Australasian, Asian and North American economies in which it competes. Fluctuations in industrial output, commercial and residential construction activity, public sector spending on infrastructure, relative exchange rates, and interest rates in each market, can have a substantial impact on Fletcher Challenge Forests' results of operations and financial condition. Other risks include competitor product development and pricing, and losses due to fire, adverse weather or biological factors.

Corporate Background:

Fletcher Challenge Forests Limited is the residual entity of the former Fletcher Challenge Group, which previously consisted of four separately listed Divisions: Forests, Building, Energy and Paper. The Board of Directors announced in December 1999 its intention to dismantle this share structure, and in July 2000 the first stage of separation was completed with the sale of Fletcher Challenge Paper to Norske Skog. During November and December 2000, Fletcher Challenge Forests undertook a rights offer to its existing shareholders to raise NZ\$414 million in order to recapitalise the Division prior to separation. In March 2001, the separation of the remaining Divisions – Building, Energy and Forests – was completed. This resulted in:

- Fletcher Challenge Building becoming a stand-alone company called Fletcher Building Limited;
- The sale of Fletcher Challenge Energy to Shell and Apache Corporation;
- The creation of a new company, Rubicon Limited; and
- Fletcher Challenge Forests remaining as the sole business of Fletcher Challenge, renamed Fletcher Challenge Forests Limited.

SENIOR MANAGEMENT



From left: Mark Eglinton, Tom Nickels, Paul Gillard



From left: Ian Boyd, John Dell, Terry McFadgen

