



**FLETCHER CHALLENGE
FORESTS**

Financial & Operating Report <<<

2001

FLETCHER CHALLENGE FORESTS LIMITED
FINANCIAL & OPERATING REPORT 2001

About this report

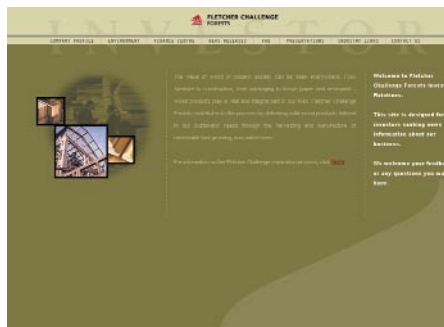
Fletcher Challenge Forests Limited is the residual entity of the former Fletcher Challenge Group, which previously consisted of four targeted listed shares, reflecting the operations of Forests, Building, Energy and Paper. The Board of Directors announced in December 1999 its intention to dismantle this share structure, and in July 2000 the first stage of separation was completed with the sale of Fletcher Challenge Paper to Norske Skog. 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.

This Financial & Operating Report should be read in conjunction with the Annual Review, which included a detailed Operating Review, and which was mailed to shareholders on the same day as the annual result announcement.

The Financial & Operating Report and Annual Review publications aim to target communications to shareholders and provide information in a timely manner. It also enables us to reduce the cost of our publications by simplifying the design of this report, removing colour photography and printing it on lightweight paper.

The Annual Reviews can be viewed on the Fletcher Challenge Forests world wide web site at www.fcf.co.nz.



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 2.00pm on Wednesday 14 November 2001.

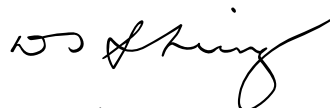
2001-2002 Calendar:

- Postal Voting and Proxy Deadline: 2.00pm on 12 November 2001
- Half Year End: 31 December 2001
- Interim Results Announcement: February 2002
- Financial Year End: 30 June 2002

Fletcher Challenge Forests Limited

Financial & Operating Report 2001

The Directors are pleased to present the Financial & Operating Report for the year ended 30 June 2001.
For and on behalf of the Board of Directors.



Sir Dryden Spring
Chairman of Directors
19 September 2001



Terry McFadgen
Managing Director

Consolidated Group	
Year in Review, Financial Summary	2
Chairman's Letter	3
Strategic and Operating Overview, Financial Position and Liquidity	4
The Board of Directors, Corporate Governance and Statutory Disclosure	8
Statement of Accounting Policies	18
Statement of Financial Performance	23
Statement of Movements in Equity	24
Statement of Financial Position	25
Statement of Cash Flows	26
Reconciliation of Net Earnings to Net Cash from Operating Activities	28
Notes to the Financial Statements	29
Report of the Auditors	75
Senior Management	76
Shareholder Statistics	77
Shareholder and Investor Information	79

Year in Review

- The company recorded a loss of \$107 million compared with net earnings of \$382 million in the previous year. The result for the company's Continuing Operations was a substantial loss of \$1.38 billion. This largely reflects the write down of its investment in the CNIFP (\$533 million) and the impact of the new market value based approach adopted by the company for the valuation of its forest estate (\$752 million)
- The loss calculated on an equivalent basis to the former Forests Division was \$749 million, compared to \$498 million for the six months to 31 December 2000
- Operating revenue of \$648 million was up 4% despite difficult market conditions
- Sales to North America continued to grow – up 15% to \$125 million
- New products were added to the Origin™ range
- The company was awarded Forest Stewardship Council (FSC) environmental accreditation for its managed forest estate
- We further improved our industry leading performance in workplace safety

Financial Summary

	2001 US\$m ⁽¹⁾	2001 NZ\$m	2000 NZ\$m	1999 NZ\$m
Total Assets – Continuing Operations	828	2,037	3,208	2,889
Net Interest Bearing Debt – Continuing Operations	131	323	771	710
Total Group Equity and Capital Funds	581	1,429	9,431	7,451

(1) Translated at NZ\$1.00 = US\$0.4065

All currency figures in this report are expressed in New Zealand dollars, unless identified otherwise.

Chairman's Letter

The company's annual result detailed in this Report is unacceptable but was largely unavoidable. It reflects the final wash-up of the Fletcher Challenge Group separation process, costs of restructuring, the change in forest estate accounting policy, the CNIFP receivership and the down cycle in major product markets faced over the past year.

Your new Board is confident that with this restructuring phase now behind us, the company can build an outstanding future.

To assist us to define that future we have initiated a strategic review of the company with support from external consultants. The review is an exhaustive "bottom up" evaluation of all fundamental issues affecting the company's profitability and future development. It includes:

- An evaluation of the best operational/ownership structures for the company's forest resource, processing and export activities.
- An identification of the key future investment/growth priorities by market and product.
- A review of the company's performance measurement processes, to ensure we are benchmarked to world best practice standards.

We are determined to be rigorous in our drive to clearly identify those strategies and processes that are effective and those that must be changed if the full potential of Fletcher Challenge Forests is to be realised.

The review has already confirmed the company has substantial competitive strengths as a global forestry and wood processing entity. In particular it has well advanced processing and market entry strategies in key markets, a highly cost effective infrastructure, and a world scale, environmentally attractive forest resource with a strongly rising harvest profile.

Despite the global downturn, Fletcher Challenge Forests is making solid advances in selected markets because of its successful added-value strategies.

The outstanding example is our performance in the US market, where there is continuing high demand for the company's processed product. This innovative strategy is an example of the company's true potential. It brings together our unique resource of pruned wood, our state of the art processing, market relationships with leading US distributors, and consumer demand for an environmentally recognised resource product.

The Board and management are very determined that this company will realise its true value and global potential through the further development of our North American and other added-value opportunities. This will require sound decisions based on our best evaluation of a complex and volatile global marketplace, New Zealand's maturing forest resource and the established substantive advantages of Fletcher Challenge Forests.

This is a demanding time for Fletcher Challenge Forests and its people, but also a point of substantial opportunity. We are determined to seize that opportunity.

Sir Dryden Spring
Chairman

Strategic and Operating Overview, Financial Position and Liquidity

Fletcher Challenge Forests is a New Zealand based forest owner and a leader in solid wood Radiata plantation forestry, with integrated manufacturing and distribution channels supplying solid wood products to consumers in New Zealand, Australia, the United States and throughout Asia. We also supply logs to industrial customers throughout the Pacific Rim. All of our product is sourced from intensively managed, renewable plantations. Fletcher Challenge Forests is a registered company incorporated in New Zealand under the Companies Act 1993 (New Zealand).

Background

The Fletcher Challenge Group was formed in 1981 as a result of a merger of three New Zealand companies.

Fletcher Challenge Limited evolved a targeted share structure consisting of four classes of equity securities, each of which was designed to track the performance of one of its four business divisions: Fletcher Challenge Building; Fletcher Challenge Energy; Fletcher Challenge Forests; and Fletcher Challenge Paper. This capital structure was achieved by attributing assets and liabilities from the Fletcher Challenge Group's operations to the various divisions. However, the divisions were not legal entities themselves and each division's shares were classes of shares in Fletcher Challenge Limited.

In December 1999, the Fletcher Challenge Limited board announced its intention to dismantle the Fletcher Challenge Group's targeted share structure. Since that time, Fletcher Challenge Limited has explored a range of options with the stated intention of maximising value, over time, for Fletcher Challenge Limited shareholders.

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. 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 Turbine Corporation 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 the Fletcher Challenge Forests Financial Statements as Discontinued Operations.

Fletcher Challenge Forests remains as the continuing business of Fletcher Challenge Limited, re-named 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 the Fletcher Challenge Forests Financial Statements as Continuing Operations.

Results Overview

Fletcher Challenge Forests Group recorded a net loss of \$107 million for the year to 30 June 2001 compared with net earnings of \$382 million in the previous year. The Continuing Operations recorded a loss of \$1,377 million, including a loss from unusual items and revaluations of \$1,324 million, compared with net earnings of \$36 million in the previous year. Net earnings from Discontinued Operations were \$1,270 million compared with \$346 million in the previous year.

Unusual loss and revaluations comprised:

- a write down of \$533 million (\$768 million before tax) for an expected shortfall in the realisable value of our investment in the Central North Island Forest Partnership (CNIFP). The write down was \$529 million at 31 December 2000.
- A write down of \$752 million (\$832 million before tax and minorities) being the difference between the historic carrying value of the forest crop at the Fletcher Challenge Group level and the new market based carrying value assessed as at 30 June 2001. In

the accounts this is represented by an impairment write down of \$197 million and a revaluation loss of \$555 million. The new market valuation of \$1.12 billion is in line with the cost based carrying value in the former Fletcher Challenge Forests Division accounts of \$1.11 billion as at 31 December 2000.

- Separation related costs of \$55 million.
- Gain on sale of assets to Rubicon of \$25 million.
- \$9 million in other unusual items including provisioning for legal costs (\$5 million).

The result calculated on a pro forma basis for the former Fletcher Challenge Forests Division was a loss of \$749 million (compared to \$1,377 million for the Group Continuing Operations) including a net unusual loss and revaluation totalling \$746 million (compared to \$1,324 million for the Group Continuing Operations). The differences between the pro forma and the Group results arise because of the higher carrying value of the forest crop at a Group level. A full explanation of these differences along with a reconciliation of earnings between pro forma and Continuing Operations is provided in Note 26 to the Financial Statements. Fletcher Challenge Forests Division net earnings of \$81 million were recorded in the previous year, including net unusual items totalling \$58 million.

The difference in current year unusual items represents the additional write down at a Group level (\$578 million) resulting from the new market based crop valuation and represents the elimination of value previously recognised at the Group but not the former Fletcher Challenge Forests Division level.

The net loss, excluding unusual items and revaluations, was \$3 million compared to net earnings of \$23 million in the previous year. A net loss of \$4 million was recorded in the second half of the year compared to earnings of \$1 million for the first half.

Operating Performance Summary

A detailed report on operating performance for the Continuing Operations is contained in the Fletcher Challenge Forests 2001 Annual Review.

Operating revenue rose 4 per cent to \$648 million, from \$623 million in the previous year.

Earnings before interest, tax, depreciation and depletions (EBITD), excluding unusual items and accrued interest income on the company's loans to the CNIFP, were \$75 million compared to \$96 million in the previous year, and \$30 million in the second half of the year compared to \$45 million in the first half. This best illustrates the

underlying business performance of the Continuing Operations, a business with a forest estate which is still maturing and which will benefit significantly from the over 60 per cent increase in the sustainable harvest volume over the next seven years.

Operating earnings before interest and tax (EBIT) for Continuing Operations, excluding unusual items, were an \$11 million loss compared to a \$28 million gain in the previous year. EBIT, excluding unusual items, calculated on a pro forma basis for the former Fletcher Challenge Forests Division was \$29 million this year compared to \$70 million in the previous year.

Review by Business Segment

Forest and Logs

Revenue from Forest and Logs, excluding accrued interest income, rose 15 per cent to \$272 million compared to \$236 million in the previous year. An 8 per cent increase in sales volume and an average US/NZ exchange rate that was 16 per cent weaker (year on year) were the primary contributing factors. Log sales volumes from the company's forests, net of intra-company sales, rose 5 per cent while the volume from third party log and chip trading rose 9 per cent.

The log export markets continued to suffer through the year from a combination of generally static demand and a competitive supply environment. US dollar prices tracked down over the last 9 months of the year as both supplier and customer currencies weakened against the US dollar. Total managed export volumes were down 11 per cent compared with the previous year. In the final quarter Fletcher Challenge Forests lifted market share in South Korea and generally held prices and sales volumes above expected levels. An efficient supply chain and appropriate production control have kept inventory levels at acceptable levels during this period.

The fall in the NZ dollar exchange rate (on average 16 per cent lower than the previous year) helped lift returns in NZ dollar terms. Prices for the indicator grades for Asian log demand, A grade to Japan and K grade to Korea, increased 9 per cent and 5 per cent in NZ dollars respectively compared to the previous year.

EBITD, excluding unusual items and accrued interest income, fell \$11 million from \$55 million in the previous year to \$44 million, on total log sales volumes from the company's forests which fell 5 per cent.

Processing and Distribution

The company's manufacturing operations continued to benefit from the diversified market base that has been created over the past five years with steady demand and higher NZ dollar prices from the US market, partially

Strategic and Operating Overview, Financial Position and Liquidity *continued*

offsetting depressed conditions in Australia and New Zealand. Processing and Distribution revenue increased to \$350 million compared to \$345 million in the previous year, on volume which fell 3 per cent to 686,000 cubic metres. Processing and Distribution EBITD fell from \$41 million in the previous year to \$30 million, primarily due to higher log costs.

The post GST downturn in the Australian building industry (housing consents down 40 per cent) was the most severe on record and had a secondary flow on effect as local exporters looked to redirect production into the New Zealand market where demand had also dropped (to 15 per cent below trendline levels). Despite the prevailing conditions the company achieved strong Australasian sales growth in Origin™ Plywood (up 11 per cent) fuelled by the addition of new wall cladding and lining products and extending the Origin™ I-beam product range with the launch of Origin™ I-floor (a combination of Origin™ I-beam and long-span Origin™ Plywood). Ramsey Roundwood also performed well with revenue growth (up 21 per cent) in the New Zealand rural and viticulture markets and in pole exports to Asia.

Sales to North America rose 15 per cent this year to \$125 million, representing 36 per cent of company manufactured product sales. This strong performance was assisted by steady demand, rising US dollar prices through the second half of the year, and the fall in the NZ dollar. Concerns over the economic slow down in the US and a likely flow on to reduced household spending, including housing, have not translated into reduced demand for our products.

The company has broadened its US customer base and is supplying Forest Stewardship Council (FSC) certified moulding feedstock to a number of millwork manufacturers for further reprocessing. We have grown the sales of finished mouldings to customers other than the major home centres, and we have introduced a new product line of clear boards – a ready to use finished board manufactured from high-grade appearance lumber.

The Japanese housing industry has continued to decline reflecting Japan's general economic malaise. Wooden housing starts in the five months to May 2001 were down 5 per cent compared to the same period in 2000. In addition, this market has seen significant competitive pressures from European producers. Despite these difficult conditions two new products were brought to market: "dodai", a treated laminated ground sill with very high performance specifications which is gaining increased acceptance with major Japanese housing companies, and "treated hashira" which offers the characteristics that are required for new high durability house designs.

Financial Position and Liquidity

The Fletcher Challenge Forests Group cash flow from continuing operations during the June 2001 year was \$104 million compared with \$183 million in the previous year.

Operating working capital requirements increased by \$32 million during the year.

Capital expenditure for the year totalled \$155 million, lower than the \$176 million in the previous year and comprised the purchase of fixed assets of \$32 million, interest capitalised to the forest estate of \$111 million and investment in associates of \$12 million. Offsetting the expenditure were divestments totalling \$113 million, including the sale of biotechnology and South American assets (\$80 million) to Rubicon Limited in March 2001 and the sale of taxation benefits (\$33 million).

Depreciation and depletions for Fletcher Challenge Forests Continuing Operations totalled \$112 million compared with \$110 million in the previous year.

Wood product prices and demand remain at cyclically low levels, which together with the relatively low harvest volumes from a still maturing forest resource means that the company is not yet generating significant surplus cash flow. Therefore, no dividend has been declared for Fletcher Challenge Forests this year.

Group equity and capital funds totalled \$1,429 million, compared with \$9,431 million as at 30 June 2000. The reduction in Group equity and capital funds was primarily due to the disposal of Fletcher Challenge Building, Energy and Paper following the reorganisation of the Fletcher Challenge Group. On a Fletcher Challenge Forests Continuing Operations basis, a net loss of \$1,377 million was recorded for the year. Offsetting this decrease was an increase in reserves arising from currency translation variations (\$307 million) and an increase in reported capital of \$504 million comprising net proceeds of \$414 million from a Rights Offer in December 2000 and a share placement of \$90 million to Rubicon Limited in March 2001.

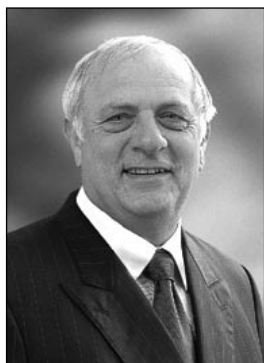
The Group maintained a policy of holding its assets and matching debt in the dominant functional currency which was United States dollars. During the year the New Zealand dollar weakened against the United States dollar (by 16 per cent on average to a rate of NZ\$1.00 = US\$0.4065). As a result, on translation for reporting purposes from the functional currency, both asset and debt values in New Zealand dollars increased, with the net variation being an increase in reserves of \$307 million for Fletcher Challenge Forests Continuing Operations. In view of the changes that have occurred in the business and in the mix of currencies that impact on the Group's

cash flow over a period of several years, the company has now determined that, with effect from 1 July 2001, the functional currency of the business is New Zealand dollars.

Net interest bearing debt was \$323 million down from the \$771 million at 30 June 2000 attributed to Fletcher Challenge Forests as part of the targeted share structure. Net proceeds of \$414 million were raised through the Rights Offer in December 2000 and a further \$90 million was raised from a share placement to Rubicon Limited as part of the Fletcher Challenge Group Separation Process. The debt to total capitalisation ratio was 18.8 per cent.

There was no derivative activity by the Group during the year, other than that required for interest rate exposure management, foreign exchange exposure management, and price risk management of commodities. In these transactions, the Group has a policy of creating no exposure in excess of the actual underlying positions.

The Board of Directors, Corporate Governance and Statutory Disclosure


Sir Dryden Spring

DSc (Hon)

Chairman of Directors

Committees

Audit

Initially appointed 1999

Last re-elected 1999

Sir Dryden, 61, is Chairman of WEL Energy Group 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 Deputy 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.


Michael John Andrews

MNZIF

Non-Executive Director

Committees

Audit

Due Diligence

Remuneration

Initially appointed 1990

Last re-elected 2000

Mr Andrews, 61, 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.


Rodger Herbert Fisher

FCIS

Non-Executive Director

Committees

Audit

Due Diligence

Remuneration

Initially appointed 2001

Mr Fisher, 55, 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 Deputy Chairman of WEL Energy Group 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.


Stephen Nash Hurley

BA, MBA (Hons) (Harvard)

Non-Executive Director

Initially appointed 2001

Mr Hurley, 58, has been an investor in the global forest products industry for over 25 years. He is the Founder, Chairman and Chief Executive of Xylem Investments, Inc., an international forestry investment firm based in Boston, Massachusetts. Prior to founding Xylem Investments, Inc. in 1994, Mr Hurley was Principal, Director and Investment Committee Member of Resource Investments, Inc (RII – now known as UBS Brinson Resource Investments). Mr Hurley is a Director of Evergreen Forests, Wenita Forest Products Company and four South American forestry companies. Mr Hurley was previously a fund manager at Fidelity Investments, and prior to that he was a Vice President of JP Morgan Investment Management, Inc. Mr Hurley is a member of the Association of Investment Management and Research, the New York Society of Security Analysts and the New York Forests Products Analysts Group.



Warren Arthur Larsen
MAGSc (Hons), BBS, CA

Non-Executive Director

Committees

Audit
Remuneration

Initially appointed 2001

Mr Larsen, 55, 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 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

Mr McFadgen, 54, 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

Initially appointed 2001

Mr Walls, 56, 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 Wilson & Horton Holdings). 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.

The following Directors ceased to hold office during the financial year to 30 June 2001: Paul Edward Alex Baines, Roderick Sheldon Deane, Hugh Alasdair Fletcher and Kerrin Margaret Vautier.

The Board of Directors, Corporate Governance and Statutory Disclosure *continued*

Governance

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 approved corporate governance practices, the Board of Fletcher Challenge Forests Limited advises it 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).

1. 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 Officer (CEO) who is charged with the day-to-day leadership and management of the Company. The CEO 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.
2. The Board has the obligation to protect and enhance the value of the assets of the Company in the interest 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.
3. The Constitution provides that the appropriate size for the Board is between five and thirteen 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.
4. The Board supports the concept of the separation of the role of Chairman from that of the CEO. The Chairman's role is to manage the Board effectively, to provide leadership to the Board, and to interface with the CEO.
5. At present, one former executive and the CEO are Directors. The current Chairman was not previously an executive.
6. The composition and terms of reference for the Board, the Chairman, the Committees and the CEO are reviewed annually by the Board. The Chairman annually assesses the effectiveness of the Board and its Committees.
7. 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.
8. 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 and Remuneration Committees. From time to time the Board may create ad hoc committees to examine specific issues on behalf of the Board.
9. Committee Chairmen and members are appointed by the Board and, where possible, consideration is given to having Directors rotate their committee assignments.
10. A Committee or individual Director may engage separate independent counsel and/or advisors at the expense of the Company in appropriate circumstances, with the approval of the Chairman of the Board.
11. The Chairman of the Board, with the assistance of the CEO, 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.
12. The Board normally meets ten times a year for a full day and once a year for an extended strategic planning meeting. During the year ended 30 June 2001, a total of 31 Board meetings were held, the additional number being due to the unusual demands placed on the Board by the Separation process of the Fletcher Challenge Group.
13. The Board evaluates the performance of the CEO and the CEO's direct reports annually. The evaluation is based on criteria which include the performance of the business, the accomplishment of long-term strategic objectives and other non-quantitative objectives established at the beginning of each year.
14. Every year, the Board reviews and approves a long-term strategic plan and one-year operating budget for the Company.
15. Succession planning and management development is reported annually by the CEO to the Board.
16. The Board encourages the CEO 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 CEO believes should be given exposure to the Board.

17. 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.
18. The Board of Directors meets periodically on an “in camera” basis without Management present.
19. The formulation and implementation of policies and reporting procedures for Management other than that referred to above has been delegated to the CEO. The Board monitors those delegations as part of the formal business of each Board meeting.
20. These Governance Guidelines have been developed and approved by the Board and are reviewed by the Board at least annually.

Board Committees

The Board has three ongoing Committees – Audit, Remuneration and Due Diligence. 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 policies, procedures and practices. The Committee has adopted a comprehensive Charter addressing membership, authority, primary and specific responsibilities and reporting procedures.

Due Diligence:

Committee members

M C Walls (Chairman)

M J Andrews

R H Fisher

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.

The Due Diligence Committee’s objective 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.

As the major part of the Committee’s work involves the review of draft documents, the Committee conducts most of its business by written and telephonic communication but meets formally as required.

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 and Board remuneration policies, recruitment policies and practices, alignment of remuneration with the Company’s objectives and general employment-related issues.

The Board of Directors, Corporate Governance and Statutory Disclosure *continued*

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, set in July 1995 and applicable until the completion of the separation process of the Fletcher Challenge Group in March 2001, was \$65,000 per annum comprising fees of \$48,750 and equity options and/or Fletcher Challenge shares equal in value to \$16,250. The arrangement to allocate \$16,250 to options or shares terminated on 31 October 2000 and all of the base remuneration from that date was taken in cash.

Following separation, Non-Executive Directors' base remuneration, set in April 2001, 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 2001 was \$427,915.

Fees, prior to any taxation liability, paid to individual Non-Executive Directors in the year ended 30 June 2001 were:

	<i>Base Fee</i>	<i>Committee Chairman</i>	<i>Total Fee</i>
M J Andrews	12,500	–	12,500
P E A Baines	43,333	9,375	52,708
R S Deane	140,833	–	140,833
R H Fisher	12,500	–	12,500
H A Fletcher	43,333	–	43,333
S N Hurley	12,500	–	12,500
W A Larsen	12,500	–	12,500
D T Spring	74,583	–	74,583
K M Vautier	43,333	9,375	52,708
M C Walls	12,500	1,250	13,750
Total	407,915	20,000	427,915

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

P E A Baines	22,125	–	–
H A Fletcher	15,750	–	–
K M Vautier	20,906	–	–
Total	58,781	–	–

Executive Director's Remuneration for the year ended 30 June 2001

	<i>Salary</i>	<i>Incentive Remuneration</i>	<i>Severance</i>	<i>Other</i>	<i>Total</i>
M J Andrews	\$652,500	\$880,400	\$1,414,923	–	\$2,947,823
T N McFadgen	\$657,145	\$240,000	–	\$534,919	\$1,432,064

In addition to remuneration of \$897,145 paid to T N McFadgen, as part of a new employment contract for his role of Chief Executive Officer of Fletcher Challenge Forests following separation, he was provided ordinary and preference shares in the Company valued at \$534,919 at the time of receipt. The Board of Directors expects T N McFadgen to continue to hold these shares in the Company for the duration of his employment with the Company. T N McFadgen must not dispose of the shares without prior consultation with the Chairman of the Board.

A motor vehicle benefit at the rate of \$58,000 p.a. was received by T N McFadgen.

Mr Andrews is a beneficiary of the Fletcher Building Retirement Plan and received payments from the Plan during the year.

Mr McFadgen is a contributing member of the Fletcher Building Retirement Plan and accrued benefits under that Plan. Due to the financial status of the Plan no contributions were made during the year. However, were contributions required they would not be greater than 16 per cent of pensionable salary.

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

Incentive Remuneration

The Company operates an incentive remuneration plan for the CEO, Officers and a number of other senior executives which requires participants to agree with their immediate superior an annual performance contract. This provides a method of determining how much value is created by each participant and a structure to reward them in line with those results.

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 2001.

Apart from some overseas subsidiaries which have independent Directors or are required to have a specific number of local residents as Directors, no subsidiary 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 2001.

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, M K Eglinton, T N McFadgen, P L Fowler (R), S D Judson (R), R J Robichaux (R)

Fletcher Challenge Forests Industries Limited

I R Boyd, J A Dell, M K Eglinton, T N McFadgen, M J Andrews (R), P L Fowler (R), S D Judson (R), F J Robichaux (R)

Fletcher Challenge Forests (Manufacturing) Limited

I R Boyd, J A Dell, M K Eglinton, T N McFadgen, M C Farrell (R), S D Judson (R), J McDonald (R), K E McNeil (R), G D Niccol (R), F J Robichaux (R), M A Taylor (R)

Fletcher Challenge Forests New Zealand Limited

I R Boyd, J A Dell, M K Eglinton, T N McFadgen, M C Farrell (R), J McDonald (R), G D Niccol (R), M A Taylor (R)

Fletcher Challenge Finance Limited

I R Boyd, J A Dell, M K Eglinton, T N McFadgen, M C Farrell (R), J McDonald (R), G D Niccol (R), M A Taylor (R)

Fletcher Challenge Industries Limited

I R Boyd, J A Dell, M K Eglinton, T N McFadgen, M J Andrews (R), P E A Baines (R), R S Deane (R), H A Fletcher (R), D T Spring (R), K M Vautier (R)

Fletcher Challenge Limited

I R Boyd, J A Dell, M K Eglinton, T N McFadgen, M C Farrell (R), J McDonald (R), G D Niccol (R), M A Taylor (R)

Kaingaroa Holdings Limited

I R Boyd, J A Dell, M K Eglinton, T N McFadgen, P L Fowler (R), S D Judson (R), F J Robichaux (R)

Silvamare Shipping Services Limited

I R Boyd, J A Dell, M K Eglinton, T N McFadgen, P L Fowler (R), S D Judson (R), F J Robichaux (R)

Tarawera Forests Limited

R B Adlam (\$18,000), A F Bond, I R Boyd, I W Brown, D C Isherwood (A), W K J McCallum, G M Park (\$14,000), J-C A Schell, P W Langston (R), A R Rae (R) (\$18,000 jointly), D C Robertson (R)

Woodlink Limited

I R Boyd, M K Eglinton, T H Nickels, G A Bramley (R), K E McNeil (R), C J H Chia (A), G D Stebbing (A), A B N Gray

CNI Forest Nominees Limited

I R Boyd, J A Dell, M K Eglinton, T N McFadgen, P L Fowler (R), F J Robichaux (R), S D Judson (R)

Fletcher Challenge Forests Nominees Limited

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

Fletcher Challenge Forests Trust Nominees Limited

I R Boyd, A C Grinter, G W Hall, J McDonald, R D Te Whare, V M Radford (R)

Fletcher Forests Welfare Fund Nominees Limited

I R Boyd, G D Niccol, D H Sixton, R L Parker (R), V M Radford (R)

Fletcher Challenge Forests (Japan) KK

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

Fletcher Challenge Forests USA, Inc.

R A Johnson, J McDonald, M A Taylor

Fletcher Challenge Finance USA Inc.

R A Johnson, J McDonald, M A Taylor

Fletcher Challenge Industries Finance USA Limited

R A Johnson, J McDonald, M A Taylor

Forestry Corporation of New Zealand (in Receivership)

I R Boyd, S D Judson, T N McFadgen, P L Fowler (R), F J Robichaux (R)

Red Stag Mouldings Limited (in Receivership)

I R Boyd, S D Judson, T N McFadgen, P L Fowler (R), F J Robichaux (R)

Red Stag Wood Products Limited (in Receivership)

I R Boyd, S D Judson, T N McFadgen, P L Fowler (R), F J Robichaux (R)

The Board of Directors, Corporate Governance and 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

Industry New Zealand	Appointed	Chairman
Rubicon Limited	Appointed	Chairman
Fletcher Building Limited	Appointed	Director
Fletcher Building Limited	Resigned	Director

P E A Baines

New Zealand Post Limited	Resigned	Director
South Eastern Utilities Limited	Resigned	Director
Fletcher Building Limited	Appointed	Director

R S Deane

Fletcher Building Limited	Appointed	Chairman
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R H Fisher

WEL Energy Group Limited	Initial advice	Director
Waste Management NZ Limited	Initial advice	Director
Civil Aviation Authority	Initial advice	Chairman
Aviation Security Services	Initial advice	Chairman
Auckland Rugby Football Union	Initial advice	Member
Eden Park Board of Control	Initial advice	Member
Blues Franchise Limited	Initial advice	Chairman
Rodger Fisher Consulting Limited	Initial advice	Director
Auckland Rugby Football Union	Resigned	Member
Eden Park Board of Control	Resigned	Member
Blues Franchise Limited	Resigned	Chairman

H A Fletcher

Merrill Lynch Australasian Advisory Board	Resigned	Member
Ministerial Inquiry into Telecommunications	Resigned	Member
Strategy Committee for Tainui Tribe	Resigned	Member
Trilateral Commission's Asia Pacific Group	Appointed	Member
Business Advisory Council of the United Nations		
Office for Project Services	Appointed	Member
Tertiary Education Advisory Commission	Appointed	Member
Fletcher Building Limited	Appointed	Director
Rubicon Limited	Appointed	Director

S N Hurley

The Xylem Group, Inc	Initial advice	Director
Xylem Investments, Inc	Initial advice	Director
Evergreen Forests Limited	Initial advice	Director
Wenita Forest Products Co Limited	Initial advice	Director

Grupo Forestal Soledad SA	Initial advice	Director
Forestal Argentina SA	Initial advice	Director
Forestal Tornagaleones SA	Initial advice	Director
Grupo Forestal Integradora	Initial advice	Director

W A Larsen

PDL Holdings Limited	Initial advice	Director
Richmond Limited	Initial advice	Director
Bonlac Foods Limited	Initial advice	Director
NZ Dairy Board	Initial advice	Chief Executive
PDL Holdings Limited	Resigned	Director
Bonlac Foods Limited	Resigned	Director
NZ Dairy Board	Resigned	Chief Executive
Vending Technologies Limited	Appointed	Director
Owens Group Limited	Appointed	Director

Sir Dryden Spring

Apec Business Advisory Council	Appointed	NZ Chairman
Ericsson Synergy Limited	Appointed	Director
P.A. Consulting Group NZ Advisory Board	Resigned	Member
Auckland CEO Summit (Inc)	Appointed	Director
Fletcher Building Limited	Appointed	Director
Waikato Medical Research Foundation	Resigned	Trustee

K M Vautier

Deloitte Touche Tohmatsu, NZ	Appointed	Director
Asia 2000 Foundation	Resigned	Trustee
Norwich Union Holdings (NZ) Limited	Resigned	Director

M C Walls

NZ Institute of Economic Research, Inc	Initial advice	Chairman
ABN AMRO New Zealand Limited	Initial advice	Special Consultant
Michael Walls Limited	Initial advice	Director

Contracts

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

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 2000 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 2001 the Company effected statutory liability insurance through American International Group with an aggregate limit of liability of \$1,000,000.

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 pages 16 and 17.

Stock Exchange Disclosure

On 14 March 2001 the Market Surveillance Panel of the New Zealand Stock Exchange granted the Company (then Fletcher Challenge Limited) a waiver from Listing Rule 9.2.1 (material transactions involving related parties) in relation to a finance facility established with several banks including The National Bank of New Zealand Limited and ANZ Banking Group (New Zealand) Limited in connection with the separation process for the Fletcher Challenge Group.

This waiver was necessary because, at the time the financing facility was arranged, those two banks were deemed to be related parties of the Company for the purposes of Listing Rule 9.2.1 as Dr Roderick Deane was a director of Fletcher Challenge Limited and a director of ANZ Banking Group (New Zealand) Limited and Sir Dryden Spring was a director of Fletcher Challenge Limited and a director of The National Bank of New Zealand Limited.

Directors' Holdings – Equity Securities

Fletcher Challenge Forests Ordinary Shares

	30 June 2001				30 June 2000			
	Beneficial	Non Beneficial	Associated Persons	Options	Beneficial	Non Beneficial	Associated Persons	Options
M J Andrews	–	–	159,249	–	129	–	159,120	254,549
S N Hurley	–	67,751,894	–	–	–	–	–	–
W A Larsen	100,000	–	1,007	–	–	–	–	–
T N McFadgen	570,098	–	–	–	–	–	–	–
D T Spring	2,500	–	–	–	2,500	–	–	10,438
	672,598	67,751,894	160,256	–	2,629	–	159,120	264,987

Fletcher Challenge Forests Preference Shares

	30 June 2001				30 June 2000			
	Beneficial	Non Beneficial	Associated Persons	Options	Beneficial	Non Beneficial	Associated Persons	Options
M J Andrews	–	–	318,498	–	–	–	–	–
R H Fisher	–	10,000	–	–	–	–	–	–
S N Hurley	–	135,503,788	–	–	–	–	–	–
W A Larsen	–	–	2,014	–	–	–	–	–
T N McFadgen	1,140,197	–	–	–	–	–	–	–
D T Spring	23,750	–	–	–	–	–	–	–
	1,163,947	135,513,788	320,512	–	–	–	–	–

Notes (as at 30 June 2001):

1. Mr M J Andrews is a Trustee of various Employee Share Purchase Schemes and had non-beneficial control of 8,597,535 Fletcher Challenge Forests Ordinary Shares.
2. Mr S N Hurley is Founder, Chairman and Chief Executive of Xylem Investments Inc. which held 67,751,894 Fletcher Challenge Forests Ordinary Shares and 135,503,788 Fletcher Challenge Forests Preference Shares.

The Board of Directors, Corporate Governance and Statutory Disclosure *continued*

Disclosure of Directors' Dealings

Director	Date	Ordinary Shares				\$ Capital Notes	Price				
		Building Division	Energy Division	Forests Division	Paper Division		Building Division	Energy Division	Forests Division	Paper Division	
M J Andrews	30 Nov 00	-119,296	-	-	-	options	-	Note 1	-	-	-
	23 Mar 01	-84,336	-	-	-	ord shs	-	Note 2	-	-	-
	17 Nov 00	-	270,332	-	-	ord shs	-	-	4.62	-	-
	17 Nov 00	-	-270,332	-	-	ord shs	-	-	9.20	-	-
	23 Mar 01	-	-84,336	-	-	ord shs	-	-	Note 3	-	-
	30 Nov 00	-	-	-254,549	-	options	-	-	-	Note 1	-
	8 Dec 00	-	-	318,498	-	pref shs	-	-	-	0.25	-
	28 Jul 00	-	-	-	-168,673	ord shs	-	-	-	-	2.50
P E A Baines	30 Nov 00	-63,190	-	-	-	options	-	Note 1	-	-	-
	23 Mar 01	-12,115	-	-	-	ord shs	-	Note 2	-	-	-
	23 Mar 01	-	-12,115	-	-	ord shs	-	-	Note 3	-	-
	23 Mar 01	-	63,368	-	-	ord shs	-	-	5.22	-	-
	23 Mar 01	-	-63,368	-	-	ord shs	-	-	Note 3	-	-
	30 Nov 00	-	-	-143,618	-	options	-	-	-	Note 1	-
	8 Dec 00	-	-	61,240	-	pref shs	-	-	-	0.25	-
	28 Jul 00	-	-	-	-23,562	ord shs	-	-	-	-	2.50
R S Deane	30 Nov 00	-63,190	-	-	-	options	-	Note 1	-	-	-
	23 Mar 01	-1,294	-	-	-	ord shs	-	Note 2	-	-	-
	30 Nov 00	-	63,368	-	-	ord shs	-	-	5.10	-	-
	30 Nov 00	-	-63,368	-	-	ord shs	-	-	8.79	-	-
	23 Mar 01	-	-1,294	-	-	ord shs	-	-	Note 3	-	-
	30 Nov 00	-	-	-143,618	-	options	-	-	-	Note 1	-
	8 Dec 00	-	-	6,394	-	pref shs	-	-	-	0.25	-
	28 Jul 00	-	-	-	-2,517	ord shs	-	-	-	-	2.50
R H Fisher	26 Apr 01	-	-	10,000	-	pref shs	-	-	-	0.33	-
H A Fletcher	10 Nov 00	4,672	-	-	-	ord shs	-	1.79	-	-	-
	30 Nov 00	-451,317	-	-	-	options	-	Note 1	-	-	-
	23 Mar 01	-533,469	-	-	-	ord shs	-	Note 2	-	-	-
	20 Dec 00	-	85,209	-	-	ord shs	-	-	5.51	-	-
	14 Feb 01	-	262,746	-	-	ord shs	-	-	4.89	-	-
	23 Mar 01	-	103,430	-	-	ord shs	-	-	6.34	-	-
	23 Mar 01	-	-933,897	-	-	ord shs	-	-	Note 3	-	-
	29 Nov 00	-	-	-527,569	-	ord shs	-	-	-	0.25	-
	30 Nov 00	-	-	-911,106	-	options	-	-	-	Note 1	-
	8 Dec 00	-	-	2,820,578	-	pref shs	-	-	-	0.25	-
28 Jul 00	-	-	-	-622,407	ord shs	-	-	-	-	2.50	

Disclosure of Directors' Dealings *continued*

Director	Date	Ordinary Shares				\$ Capital Notes	Price			
		Building Division	Energy Division	Forests Division	Paper Division		Building Division	Energy Division	Forests Division	Paper Division
W A Larsen	26 Apr 01	-	-	100,000	- ord shs	-	-	-	0.33	-
T N McFadgen	20 Mar 01	-	-	537,634	- ord shs	-	-	-	0.33	-
	20 Mar 01	-	-	1,140,197	- pref shs	-	-	-	0.33	-
D T Spring	30 Nov 00	-4,158	-	-	- options	-	Note 1	-	-	-
	22 Dec 00	6,000	-	-	- ord shs	-	1.89	-	-	-
	23 Mar 01	-7,100	-	-	- ord shs	-	Note 2	-	-	-
	29 Nov 00	-	4,183	-	- ord shs	-	-	5.12	-	-
	29 Nov 00	-	-4,183	-	- ord shs	-	-	8.94	-	-
	23 Mar 01	-	-1,100	-	- ord shs	-	-	Note 3	-	-
	30 Nov 00	-	-	-10,438	- options	-	-	-	Note 1	-
	30 Nov 00	-	-	45,000	- rights	-	-	-	0.001	-
	8 Dec 00	-	-	50,000	- pref shs	-	-	-	0.25	-
	23 Mar 01	-	-	-26,250	- pref shs	-	-	-	-	-
	28 Jul 00	-	-	-	-2,000 ord shs	-	-	-	-	2.50
K M Vautier	9 Nov 00	1,248	-	-	- ord shs	-	1.93	-	-	-
	10 Nov 00	1,939	-	-	- ord shs	-	1.79	-	-	-
	23 Mar 01	-46,484	-	-	- ord shs	-	Note 2	-	-	-
	10 Nov 00	-	1,255	-	- ord shs	-	-	8.20	-	-
	23 Mar 01	-	-10,633	-	- ord shs	-	-	9.80	-	-
	23 Mar 01	-	-32,188	-	- ord shs	-	-	Note 3	-	-
	10 Nov 00	-	-	3,131	- ord shs	-	-	-	0.35	-
	8 Dec 00	-	-	148,038	- pref shs	-	-	-	0.25	-
	28 Jul 00	-	-	-	-75,683 ord shs	-	-	-	-	2.50
	23 Mar 01	-	-	-	-	-25,000	-	-	-	-

The Non-Executive Director electing partial remuneration by shares for the year ended 31 October 2000, K M Vautier, received these on 9 November 2000.

H A Fletcher and K M Vautier, and persons associated with them, acquired shares through the Dividend Reinvestment Plan on 10 November 2000.

Note 1. Due to the separation of the Fletcher Challenge Group, Fletcher Challenge compensated all holders of options on Fletcher Challenge Building and Fletcher Challenge Forests shares in consideration for their consenting to altering the final exercise dates for all Fletcher Challenge Building options and Fletcher Challenge Forests options to 30 November 2000. The directors affected were M J Andrews, P E A Baines, R S Deane, H A Fletcher and Sir Dryden Spring.

Note 2. Issue of one Fletcher Building share for each Fletcher Challenge Building share.

Note 3. These shares were sold on 23 March 2001 for a package of consideration comprising of \$US3.55 cash for each Fletcher Challenge Energy share, an entitlement to one fully-paid Capstone Turbine Corporation share for every 70 Fletcher Challenge Energy shares and one share in Rubicon Limited for every Fletcher Challenge Energy share.

Statement of Accounting Policies

Basis of Presentation

The Financial Statements presented are those of Fletcher Challenge Forests Limited, formerly Fletcher Challenge 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 note 34. These policies have been applied on a consistent basis except as disclosed in note 3, Accounting Changes.

The Consolidated Financial Statements are expressed in New Zealand dollars. The amounts pertaining to the most recent financial period are translated to United States dollars, the latter being presented solely for convenience and converted from New Zealand dollars, as a matter of arithmetical computation only, at a rate on 30 June 2001 of US\$0.4065:NZ\$1.00.

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 in which the Group has a significant but not controlling interest (refer note 21).

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. Previously, shares held by an in-substance subsidiary, the Employee Educational Fund, were accounted for under the Treasury Stock method.

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 they are acquired. After assigning fair values to the assets and liabilities of subsidiaries and associates acquired, goodwill may arise when comparing the purchase cost to the fair value assigned. Goodwill arises to the extent that the fair value is determined to be less than the purchase cost and this goodwill is amortised to Earnings on a systematic basis over the period it is believed benefits will arise. The period of amortisation will generally be five years or less; however, in individual cases it may be up to 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.

Currency Translation

Statements of Financial Position in foreign currencies are translated into New Zealand currency at the rates of exchange ruling at balance date. Statements of Financial Performance in foreign currencies are translated using an average exchange rate reflecting an approximation of the appropriate transaction rates. Exchange variations arising from translation are held in the Currency Translation Reserve.

Functional Currency

Each significant business unit, wherever domiciled, is evaluated by reference to the currency of its cash flow, sales prices, sales market, expenses and finance to determine its dominant functional currency. Where the functional currency differs from the domestic currency, the non-monetary assets are recorded in the functional currency rather than the currency of domicile and translated to New Zealand dollars in accordance with the currency translation policy.

Valuation of Assets**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 excess future after tax cash inflows from the standing plantation forest over future after tax cash costs of harvesting, transporting and marketing the logs produced, applying a discount rate estimating 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 8.4 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 operation, 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

Statement of Accounting Policies *continued*

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. Cost includes direct manufacturing costs and manufacturing overheads at normal operating levels.

Debtors

Debtors are valued at estimated net realisable value. The valuation is net of a provision maintained for doubtful debts, the ultimate collection of which is doubtful, provision for which is made from Earnings.

All known losses are written off to Earnings in the period in which it becomes apparent that the debts are not collectable.

Cash

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

Permanent Impairment

Permanent Impairment is deemed to occur when the recoverable amount falls below the book value of the asset. The recoverable amount is determined to be the sum of expected future discounted net cash flows arising from the ownership of the asset. Future net cash flows take into account remaining useful life, and the expected period of continued ownership, including any intended disposals, and any costs or proceeds expected to eventuate at the end of the remaining useful life or end of the expected period of continued ownership.

For the purposes of considering whether there has been a Permanent Impairment, assets are grouped at the lowest level for which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets.

When an impairment loss arises the impairment is measured as the amount by which the book value exceeds the fair value of the asset.

Valuation of Liabilities

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.

The future tax benefit of past and current tax losses, to the extent they exceed related deferred taxation liabilities, is not recognised unless recovery is considered certain and is expected to be made within two years.

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	5 years
Motor Vehicles	5 years

Forest Assets

All revenues related to forest asset harvesting are taken to Earnings when realised.

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.

Stock Based Compensation

The Group operated various share option schemes for director and employee remuneration. Stock based compensation cost on an option is accounted for using the fair value based method, as presented by SFAS 123 “Accounting for Stock-Based Compensation”, and is recognised in Earnings over the period from grant date to earliest exercise date. The effect of forfeitures are recognised as they occur.

Statement of Accounting Policies *continued*

Taxation

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

The future tax benefit of past and current tax losses, to the extent they exceed related deferred taxation liabilities, is not recognised unless recovery is considered certain and is expected to be made within two years.

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

<i>Fletcher Challenge Forests Limited</i>		<i>Note</i>	<i>Fletcher Challenge Forests Group</i>				
<i>2000</i> <i>NZ\$m</i>	<i>2001</i> <i>NZ\$m</i>		<i>2001</i> <i>US\$m</i>	<i>2001</i> <i>NZ\$m</i>	<i>2000</i> <i>NZ\$m</i>	<i>1999</i> <i>NZ\$m</i>	
199	109	Operating Revenue	4	263	648	623	545
-87	-78	Operating Expenses		-683	-1,680	-588	-515
112	31	Operating Earnings	5	-420	-1,032	35	30
-	-	Forest Crop Revaluation	20	-254	-625	-	-
-125	-76	Funding Costs	6	-	-	-	-
-13	-45	Earnings before Taxation		-674	-1,657	35	30
27	14	Taxation	7	116	285	102	20
14	-31	Earnings after Taxation		-558	-1,372	137	50
-	-	Minority Interest		4	9	-1	2
-	-	Equity Earnings	9	-6	-14	-100	-99
14	-31	Net Earnings from Continuing Operations	26	-560	-1,377	36	-47
-	-	Earnings from Discontinued Operations before Taxation	2	161	396	533	155
-	-	Gain on Disposal of Discontinued Operations before Taxation	2	458	1,126	-	-
-	-	Taxation from Discontinued Operations		-102	-252	-187	-7
14	-31	Net Earnings		-43	-107	382	101
Fletcher Challenge Forests – Continuing Operations:							
-	-	Basic Net Earnings per Share (cents)	10	-30.0	-73.9	4.3	-5.7
-	-	Diluted Net Earnings per Share (cents)	10	-30.0	-73.9	4.0	-6.0
Basic Weighted Average Number of Shares							
-	-	Outstanding (millions of shares)	10	1,864	1,864	846	824
Diluted Weighted Average Number of Shares							
-	-	Outstanding (millions of shares)	10	1,864	1,864	897	843

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

Statement of Movements in Equity

for year ended 30 June

<i>Fletcher Challenge Forests Limited</i>			<i>Fletcher Challenge Forests Group</i>			
2000	2001		2001	2001	2000	1999
NZ\$m	NZ\$m		US\$m	NZ\$m	NZ\$m	NZ\$m
		Total Group Equity and Capital Funds at the				
4,727	6,497	beginning of the year	3,834	9,431	7,451	8,112
-	-	Opening adjustment on adoption of SFAS 133	-69	-169	-	-
4,727	6,497		3,765	9,262	7,451	8,112
14	-31	Net Earnings	-43	-107	382	101
1,730	-57	Revaluation of Investments	-76	-187	714	-1
-	-	Net Movement in Cash Flow Hedges	-7	-18	-	-
-	-	Reversal of Revaluation Reserve upon Disposal				
-	-	of Investment	-128	-316	-	-
-	-	Movement in Currency Translation Reserve	302	745	708	-312
1,744	-88	Total Recognised Revenues and Expenses for	48	117	1,804	-212
		the year				
-	-5,509	Disposal of Fletcher Challenge Building, Energy	-3,132	-7,706	-	-
		and Paper				
		Movement in Minority Equity	24	59	266	-350
119	553	Movement in Reported Capital	225	553	119	46
-	-	Movement in Capital Funds	-311	-766	-56	32
-93	-54	Dividends and Distributions	-38	-90	-153	-177
6,497	1,399	Total Group Equity and Capital Funds	581	1,429	9,431	7,451

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		Note	Fletcher Challenge Forests Group		
2000 NZ\$m	2001 NZ\$m		2001 US\$m	2001 NZ\$m	2000 NZ\$m
Assets					
Current Assets:					
-	13	16	21	51	6
-	-	17	31	77	66
3	1	18	20	50	83
-	56	2	23	56	3,333
3	70		95	234	3,488
Term Assets:					
1	-	19	146	358	338
-	-	20	456	1,123	1,648
6,660	1,768	21	154	378	1,067
-	-	2	-	-	9,916
6,664	1,838		851	2,093	16,457
Liabilities and Group Equity					
Liabilities					
Current Liabilities:					
150	-		-	-	1
18	19	22	44	108	104
-	-	23	-	-	1
-	56	2	23	56	1,896
168	75		67	164	2,002
Term Liabilities:					
26	369	24	152	374	776
-27	-5	23	51	126	387
-	-	2	-	-	3,861
167	439		270	664	7,026
Group Equity					
2,864	1,443	12	587	1,443	2,864
953	868	13&14	-186	-458	2,381
2,680	-912	13&14	168	414	1,252
6,497	1,399		569	1,399	6,497
-	-	12	-	-	766
6,497	1,399		569	1,399	7,263
-	-	15	12	30	2,168
6,497	1,399		581	1,429	9,431
6,664	1,838		851	2,093	16,457

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

On behalf of the Board
23 August 2001



Sir Dryden Spring
Chairman of Directors



Terry McFadgen
Managing Director

	2001 US\$m	Fletcher Challenge Forests Group 2001 NZ\$m	2000 NZ\$m	1999 NZ\$m
Analysis of Subsidiaries Disposed⁽¹⁾				
Proceeds from Sale of Subsidiaries	-	-	84	116
Deferred Settlement	-	-	-	72
	-	-	84	188
Fixed Assets	-	-	-	148
Current Assets	-	-	-	26
Term Liabilities	-	-	-	-13
Current Liabilities	-	-	-	-5
Minority Interest	-	-	-	-76
Net Assets of Subsidiaries Disposed	-	-	-	80
Deferred Settlement Received	-	-	73	-
Gain on Disposal of Subsidiaries	-	-	11	108

(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 and \$116 million in 1999. During the 1999 year, Fletcher Challenge and RII Chile completed a sale and purchase agreement whereby the Group exited its 51 per cent position in Forestal Bio Bio, with RII Chile moving to 100 per cent ownership, and RII Chile exited its 49 per cent share of Papeles Bio Bio, with the Group moving to 100 per cent ownership. The deferred settlement of \$72 million related to a receivable from RII Chile.

Analysis of Subsidiaries Acquired				
Cash Outflow on Purchase of Subsidiaries ⁽²⁾	-	-	-	5
Fixed Assets	-	-	-	5

(2) Cash Outflow on Purchase of Subsidiaries includes Norwood (\$5 million) in 1999.

Analysis of Investment in CNI Forest Partnership Acquired⁽³⁾				
Cash Outflow on Purchase of Interest in CNI Forest Partnership	-	-	-	150
Shares Issued	-	-	-	29
	-	-	-	179
Investment Acquired				
Equity	-	-	-	149
Advance	-	-	-	30
	-	-	-	179

(3) In the year ended 30 June 1999 the Group contributed further equity to the Partnership as a result of the acquisition of half of the Brierley Investments Limited interest and the restructuring of the Partnership's debt. The cash outflow is included within Purchase of Investments in the Statement of Cash Flows.

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			
2000	2001		2001	2001	2000	1999
NZ\$m	NZ\$m		US\$m	NZ\$m	NZ\$m	NZ\$m
		Cash was Provided from:				
14	-31	Net Earnings	-560	-1,377	36	-47
		Adjustment for Items not involving Cash:				
		Depreciation, Depletions, Amortisation and				
-13	43	Provisions	703	1,729	106	167
		Interest Capitalised from Discontinued				
-	-	Operations	25	61	56	64
-27	-14	Taxation	-117	-288	-106	-28
-	-	Minority Interest in Earnings of Subsidiaries	-4	-9	1	-2
-	-	Equity Earnings	6	14	100	99
-40	29	Non Cash Adjustments	613	1,507	157	300
-26	-2	Cash Flow from Operations ⁽¹⁾	53	130	193	253
116	-	Less Gain on Disposal of Affiliates and Fixed Assets	-11	-26	-10	-67
		Cash Flow from Operations before Net Working				
90	-2	Capital Movements	42	104	183	186
-8	3	Net Working Capital Movements	-13	-32	-59	8
82	1	Net Cash from Operating Activities ⁽²⁾	29	72	124	194
		Net Working Capital Movements:				
1	-7	Debtors	2	5	-55	-24
-	-	Stocks	-5	-12	-25	6
-9	10	Creditors	-10	-25	21	26
-8	3		-13	-32	-59	8

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

(2) As per Statement of Cash Flows.

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

Notes to the Financial Statements

1 Targeted Share Structure Reorganisation

In December 1999, the Board of 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***2 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.

	<i>2001</i> <i>NZ\$m</i>	<i>2000</i> <i>NZ\$m</i>	<i>1999</i> <i>NZ\$m</i>
Operating Revenue			
Total Operating Revenue	4,002	7,908	7,743
Operating Revenue from Discontinued Operations	3,354	7,285	7,198
Operating Earnings			
Operating Earnings from Discontinued Operations includes:			
Net Losses on Disposal of Fixed Assets	-1	-	-1
Amortisation of Goodwill and Intangibles	7	6	3
Depreciation and Depletions:			
Depreciation Charged	109	486	465
Depletions of Resource Extraction Assets	357	388	343
Non Plantation Forest Depletions	1	9	6
Unusual Items:			
Gain/(Loss) on Disposal of Affiliates ⁽¹⁾	254	105	60
Gain on Disposal of Fletcher Challenge Energy and Paper ⁽²⁾	1,126	-	-
Restructuring and Separation Costs ⁽³⁾	-119	-193	-61
Permanent Impairment ⁽⁴⁾	-112	-30	-90
Other Gains/(Losses) ⁽⁵⁾	-37	61	118
Research and Development	2	11	16
Bad Debts Written Off	6	11	7
Donations	1	3	2
Maintenance and Repairs	121	371	389
Operating Lease Expense	36	125	109
Forest Costs Capitalised	-	7	10
Auditors' Fees and Expenses Payable for:			
Statutory Audit			
PricewaterhouseCoopers	-	1	1
KPMG	-	4	4
Other Services			
PricewaterhouseCoopers	4	6	1
KPMG	4	5	4
Costs Incurred in Oil and Gas Acquisition, Exploration and Development Activities:			
Current Exploration Costs on Unproved Prospects (expensed)	29	27	95
Prior Period Exploration Costs on Unproved Prospects (expensed)	-	-	18
Exploration Costs on Unproved Prospects (capitalised)	30	44	26
Development Costs (capitalised)	122	178	251

- (1) Gain on Disposal of Affiliates relates 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), the loss on sale of the Tasman Eucalypt Forest Estate of \$8 million (June 2000), the gain on sale of the Island Cogeneration Project of \$23 million (June 1999), the Taranaki Combined Cycle Plant of \$23 million (June 1999), a loss on sale of UK Paper of \$11 million and the release of provisions created on the disposal of affiliates in previous periods of \$25 million (June 1999).
- (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 relates 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) and \$17 million (June 1999) 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, costs of \$32 million (June 2000) associated with the Fletcher Challenge Paper South American capital restructure and costs of \$44 million (June 1999) related to Fletcher Challenge Canada Limited consisting of severance, pension bridging and other related costs committed in September 1998 to reduce the hourly workforce by approximately 340 positions and improve productivity and costs at the Company's mills.

2 Discontinued Operations *continued***Operating Earnings** *continued*

(4) Permanent Impairment relates 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), non core Fletcher Challenge Energy assets of \$20 million (June 2000), the Tasman Eucalypt Forest Estate of \$41 million (June 1999) and the carrying values of the investments in the Xinda Iron and Steel operations in China of \$49 million (June 1999).

Planning decisions led to a writedown 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 writedown 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) relates to provisions established in respect of a dispute over the construction of co-generation plants in Australia of \$37 million (June 2001), the gain on the sale of the turbine marketing rights for the Capstone Turbine Corporation of \$61 million (June 2000), an entitlement by Fletcher Challenge Canada Limited to compensation of \$86 million (June 1999), in respect of production losses which occurred in the months ended April 1998, a gain on the sale of the Gold River newsprint machine of \$49 million (June 1999) and payments made related to the settlement of the Kapuni Gas Price Arbitration of \$17 million (June 1999).

	2001 <i>NZ\$m</i>	2000 <i>NZ\$m</i>	1999 <i>NZ\$m</i>
Funding Costs			
Interest payable on:			
Term Debt and Other Non Current Liabilities	105	354	337
Short Term Loans and Bank Overdrafts	2	25	14
Income from Short Term Deposits	-33	-76	-51
	74	303	300
Net Interest Capitalised to Fixed Assets of Discontinued Operations	-	-6	-19
Plus Share Registry and Issue Expenses	2	3	3
	76	300	284

Prior to the reorganisation of the Fletcher Challenge Group, debt was predominantly managed by the Group on a centralised basis. The Discontinued Operations reflect the specific third party borrowings and related funding costs of the former Fletcher Challenge Building, Energy and Paper operations, together with attributed corporate borrowings and related funding costs which were originally attributed in accordance with the terms of the Fletcher Challenge Ordinary Division Reorganisation Information Memorandum dated 28 February 1996 on the basis of the debt to total capitalisation ratio of comparable industry participants and projected funding requirements of each operation. Net cash inflows and outflows of each operation since the original attribution either decrease or increase the amount of debt attributed and this attributed debt attracts interest at the weighted average rate of all non-specific facilities of the former Fletcher Challenge Group denominated in each currency.

Notes to the Financial Statements *continued***2 Discontinued Operations** *continued***Statement of Financial Position***as at 30 June*

	<i>2001</i> <i>NZ\$m</i>	<i>2000</i> <i>NZ\$m</i>
Assets		
Current Assets:		
Cash and Liquid Deposits	47	1,047
Stocks	–	779
Debtors	9	1,471
Contracts	–	36
Total Current Assets	56	3,333
Term Assets:		
Fixed Assets	–	8,638
Investments	–	1,152
Other Non Current Assets	–	126
Total Discontinued Operations Assets	56	13,249
Liabilities and Group Equity		
<i>Liabilities</i>		
Current Liabilities:		
Short Term Loans	–	162
Creditors	56	1,689
Provision for Dividends and Distributions	–	14
Provision for Current Taxation	–	31
Total Current Liabilities	56	1,896
Term Liabilities:		
Term Debt	–	3,877
Deferred Oil and Gas Sales	–	117
Provision for Deferred Taxation	–	-529
Other Non Current Liabilities	–	396
Total Discontinued Operations Liabilities	56	5,757
<i>Equity</i>		
Discontinued Operations Equity	–	4,594
Discontinued Operations Capital Funds	–	766
Discontinued Operations Equity and Capital Funds	–	5,360
Minority Equity	–	2,132
Total Discontinued Operations Equity and Capital Funds	–	7,492
Total Discontinued Operations Liabilities and Equity	56	13,249

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

Fletcher Challenge Forests Limited

The balances disclosed as Discontinued Operations relate to the final settlement transactions required for the finalisation of the Fletcher Challenge Group Separation Process.

2 Discontinued Operations *continued***Statement of Cash Flows***for year ended 30 June*

	<i>2001</i> <i>NZ\$m</i>	<i>2000</i> <i>NZ\$m</i>	<i>1999</i> <i>NZ\$m</i>
Cash was Provided:			
From Operating Activities			
Receipts from Customers	3,353	7,091	7,114
Dividends and Distributions Received	10	12	28
Interest Received	57	73	42
Total Provided	3,420	7,176	7,184
Payment to Suppliers, Employees and Other	2,629	5,577	5,899
Interest Paid	142	386	338
Income Tax Paid	22	30	24
Total Applied	2,793	5,993	6,261
Net Cash from Operating Activities	627	1,183	923
From Investing Activities			
Sale of Fixed Assets	37	161	155
Sale of Investments	341	294	67
Sale of Fletcher Challenge Building, Energy and Paper	5,099	-	-
Sale of Subsidiaries	-	43	198
Less Cash in Subsidiaries Disposed	-1,632	-14	-
Total Provided	3,845	484	420
Purchase of Fixed Assets	274	589	769
Interest Paid Capitalised in Fixed Assets	-	6	19
Purchase of Investments	405	29	130
Purchase of Subsidiaries	50	2	6
Purchase of Minority Equity	-	14	-
Total Applied	729	640	924
Net Cash from Investing Activities	3,116	-156	-504
From Financing Activities			
Issue of Shares	46	5	1
Issue of Capital Funds	119	-	73
Total Provided	165	5	74
Net Debt Settlements	4,165	676	441
Movement in Deferred Liabilities	7	14	16
Taxation Benefits Paid	33	-	-
Purchase of Capital Funds	656	56	41
Dividends and Distributions Paid to Group Stakeholders	90	212	182
Dividends Paid to Minority Shareholders	3	54	56
Total Applied	4,954	1,012	736
Net Cash from Financing Activities	-4,789	-1,007	-662
Net Movement in Cash Held	-1,046	20	-243
Add Opening Cash and Liquid Deposits	1,047	897	1,197
Effect of Exchange Rate Changes on Net Cash	46	130	-57
Closing Cash and Liquid Deposits	47	1,047	897

Notes to the Financial Statements *continued***2 Discontinued Operations** *continued***Reconciliation of Net Earnings to Net Cash from Operating Activities***for year ended 30 June*

	2001 <i>NZ\$m</i>	2000 <i>NZ\$m</i>	1999 <i>NZ\$m</i>
Cash was Provided from:			
Net Earnings	1,270	346	148
Adjustment for Items not involving Cash:			
Depreciation, Depletions, Amortisation and Provisions	683	900	1,029
Interest Capitalised to Continuing Operations	-61	-56	-64
Taxation	230	157	-17
Minority Interest in Earnings of Subsidiaries	12	62	29
Equity Earnings	-1	18	11
Non Cash Adjustments	863	1,081	988
Cash Flow from Operations	2,133	1,427	1,136
Less Gain on Disposal of Affiliates and Fixed Assets	-1,378	-50	-99
Cash Flow from Operations before Net Working Capital Movements	755	1,377	1,037
Net Working Capital Movements	-128	-194	-114
Net Cash from Operating Activities	627	1,183	923

3 Accounting Changes**(a) Changes in Accounting Policies**

- (i) 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 will be charged direct to the Statement of Financial Performance. Depletions will no longer be written off to earnings at the time of harvesting. Changes in the future market valuation of the plantation forest crop will be charged direct 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.
- (ii) 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.

3 Accounting Changes *continued*

- (iii) 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 has not had a material impact on the Group's financial position or results of operations.
- (iv) The Securities & Exchange Commission 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 has not had a material impact on the financial statements of the Group.
- (v) For the periods ended 30 June 2000 and 30 June 1999, there were no changes in Accounting Policies.

(b) 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 No. 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. Management plans to adopt the provisions of SFAS No. 141 for any business combination accounted for by the purchase method that is completed after 30 June 2001.

Also in July 2001, the FASB issued SFAS No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142") 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 recognized in its financial statements at that date. Management is currently evaluating the impact that adoption of SFAS 142 will have on its consolidated financial statements.

<i>Fletcher Challenge Forests Limited</i>		<i>Fletcher Challenge Forests Group</i>		
<i>2000</i>	<i>2001</i>	<i>2001</i>	<i>2000</i>	<i>1999</i>
<i>NZ\$m</i>	<i>NZ\$m</i>	<i>NZ\$m</i>	<i>NZ\$m</i>	<i>NZ\$m</i>
4 Operating Revenue				
Operating Revenue from Continuing Operations includes:				
–	–	622	578	508
199	109	–	3	3
–	–	26	42	34
199	109	648	623	545

<i>Fletcher Challenge Forests Limited</i>		<i>Fletcher Challenge Forests Group</i>			
2000	2001	2001	2000	1999	
NZ\$m	NZ\$m	NZ\$m	NZ\$m	NZ\$m	
6 Funding Costs					
Interest payable on:					
113	74	Term Debt	50	52	56
9	-	Short Term Loans and Bank Overdrafts	-	-	-
122	74		50	52	56
-	-	Less Interest Capitalised to Fixed Assets	-50	-52	-56
3	2	Plus Share Registry and Issue Expenses	-	-	-
125	76	Total Funding Costs	-	-	-
-	-	Interest Capitalised to Fixed Assets	-50	-52	-56
-	-	Interest Capitalised from Discontinued Operations	-61	-56	-64
-	-	Total Interest Capitalised ⁽¹⁾	-111	-108	-120

(1) Refer to Plantation Forest Crop, note 20.

7 Taxation					
Earnings before Taxation:					
-13	-45	Domestic	-1,657	23	-70
-	-	Foreign	-	12	100
-13	-45		-1,657	35	30
-4	-15	Taxation at 33 cents per dollar	-547	12	10
Adjusted for:					
-	-	Disposal of Affiliates	-8	-	-22
-	-	Permanent Impairment and Forest Crop Revaluation	368	-	-
-	-	Partnership Income	6	-31	-23
40	50	Restructuring and Separation Costs	9	1	-
-63	-49	Other Permanent Differences	-117	7	16
-	-	Net Losses of Taxation Benefits upon Separation	2	-	-
-	-	Recognition of previously Unrecognised Benefits ⁽¹⁾	-	-93	-
-	-	Taxation Transfers ⁽²⁾	2	-	-
-	-	Rates other than 33 cents	-	2	-1
-27	-14		-285	-102	-20
Current Taxation					
-	-	Non New Zealand	2	3	8
Deferred Taxation					
-27	-14	New Zealand	-285	-109	-8
-	-	Non New Zealand	-2	4	-20
-27	-14		-285	-102	-20

(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*

<i>Fletcher Challenge Forests Limited</i>		<i>Fletcher Challenge Forests Group</i>		
2000	2001	2001	2000	1999
NZ\$m	NZ\$m	NZ\$m	NZ\$m	NZ\$m
8 Shareholder Tax Credits				
Imputation Credit Account				
Imputation Credits of Fletcher Challenge Forests Limited at the				
1	1		1	1
-	-1		-	-
1	-		1	1
Imputation Credits directly and indirectly available to the				
Shareholders at 30 June are:				
1	-		1	1
17	-		17	17
18	-		18	18
Dividend Withholding Payment Credit Account				
Dividend Withholding Payment Credits of Fletcher Challenge				
-12	-16		-12	-41
22	24		22	51
3	-		3	-
-29	-8		-29	-22
-16	-		-16	-12
Dividend Withholding Payment Credits directly and indirectly				
available to the Shareholders at 30 June are:				
-16	-		-16	-12
-	-		-	-
-16	-		-16	-12
Conduit Tax Relief Account				
Conduit Tax Relief Credits of Fletcher Challenge Forests Limited				
-14	-16		-14	-
31	21		31	13
-3	-		-3	-
-30	-6		-30	-27
-16	-1		-16	-14
Conduit Tax Relief Credits directly and indirectly available				
to the Shareholders at 30 June are:				
-16	-1		-16	-14
-	-		-	-
-16	-1		-16	-14
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.				

<i>Fletcher Challenge Forests Limited</i>		<i>Fletcher Challenge Forests Group</i>		
2000	2001	2001	2000	1999
NZ\$m	NZ\$m	NZ\$m	NZ\$m	NZ\$m
9 Equity Earnings				
The Group's share of the Earnings of Associates is:				
-	-	470	470	350
-	-	-484	-567	-446
-	-	-14	-97	-96
-	-	-	-3	-3
-	-	-14	-100	-99
Earnings from Associates included in the Statement of Financial Performance of the Group comprise:				
-	-	-14	-100	-99
-	-	-	3	3
-	-	26	42	34
-	-	12	-55	-62

(1) Included within Equity Earnings for June 2000 is a \$62 million writedown in the carrying value of the Central North Island Forest Partnership, now in Receivership. Included within Equity Earnings for June 1999 was a \$32 million writedown in the carrying value of the investment in the Central North Island Forest Partnership (in Receivership) and a \$24 million writedown in the carrying value of the investment in Forestadora Tapebicua S.A. The writedowns in the Central North Island Forest Partnership (in Receivership) were 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. The writedown in Forestadora Tapebicua S.A. followed a review of market value. Fair value was determined based on the discounted cash flows.

As from 31 December 2000 and following a writedown in the realisable value of the forest estate (refer note 5), the Group's investment in the Central North Island Forest Partnership (in Receivership) ceased to be accounted for as an associate.

Notes to the Financial Statements *continued***10 Net Earnings per Share**

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

When calculating the earnings for the purpose of calculating Basic Net Earnings per Share, Capital Notes distributions have been deducted from Net Earnings.

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. The Net Earnings used for Basic Net Earnings per Share are increased by Capital Notes distributions for calculating 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>		
	2001	2000	1999
	<i>NZ\$m</i>	<i>NZ\$m</i>	<i>NZ\$m</i>
Fletcher Challenge Forests – Continuing Operations			
<i>Numerator</i>			
Numerator for Basic Net Earnings per Fletcher Challenge Forests Share	-1,377	36	-47
Additional Net Earnings relating to the exercise of the Brierley Option	–	–	-4
Numerator for Diluted Net Earnings per Fletcher Challenge Forests Share	-1,377	36	-51
<i>Denominator (millions of shares)</i>			
Denominator for Basic Net Earnings per Fletcher Challenge Forests Share	1,864	846	824
Options and Option Equivalents	–	1	–
Brierley Option	–	–	19
Capital Notes	–	50	–
Denominator for Diluted Net Earnings per Fletcher Challenge Forests Share	1,864	897	843

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	8
	38	7	8

11 Dividends and Distributions

By Discontinued Operations:

Fletcher Challenge Building Shares	54	39	45
Fletcher Challenge Energy Shares	–	40	53
Fletcher Challenge Paper Shares	–	16	23
Total Distributions by: Fletcher Challenge Forests Limited	54	95	121
Fletcher Challenge Industries Limited – Capital Notes	36	60	60
	90	155	181
Less dividends on shares held by the Employee Share Purchase Schemes and Employee Educational Fund accounted for under the Treasury Stock method	–	-2	-4
	90	153	177

	<i>2001</i> <i>NZ\$m</i>	<i>2000</i> <i>NZ\$m</i>	<i>1999</i> <i>NZ\$m</i>
12 Capital			
Reported Capital			
Reported Capital at the beginning of the year	2,864	2,745	2,699
Issue of Shares ⁽¹⁾	553	32	51
Cancellation of Shares ⁽²⁾	-1,974	-	-
Movement in Shares held by the Fletcher Challenge Employee Share Purchase Schemes and Employee Educational Fund accounted for under the Treasury Stock method ⁽³⁾	-	87	-5
Reported Capital	1,443	2,864	2,745

(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 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. Shares held under the EEF funds, previously accounted for under the Treasury Stock method, are now 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*

	2001	2000	1999
12 Capital <i>continued</i>			
Fletcher Challenge Forests Ordinary Shares			
Number of Shares at the beginning of the year	847,022,182	823,880,521	776,247,021
Issue of Shares ⁽¹⁾	75,000,000	4,110,364	52,265,161
Net Movement in Shares accounted for under the Treasury Stock method	184,951	19,031,297	-4,631,661
	922,207,133	847,022,182	823,880,521
Fletcher Challenge Forests Preference Shares			
Issue of Shares ⁽¹⁾	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	322,137,521
Issue of Shares	-	359,178	649,840
Shares issued under the Dividend Reinvestment Plan	1,908,252	4,605,102	2,524,369
Net Movement in Shares accounted for under the Treasury Stock method	-	12,305,425	50,966
Cancellation of Shares ⁽²⁾	-344,540,653	-	-
	-	342,632,401	325,362,696
Fletcher Challenge Energy Shares			
Number of Shares at the beginning of the year	342,829,686	327,794,752	324,447,409
Issue of Shares	8,287,661	722,964	661,410
Shares issued under the Dividend Reinvestment Plan	-	3,004,808	3,109,988
Net Movement in Shares accounted for under the Treasury Stock method	86,500	11,307,162	-424,055
Cancellation of Shares ⁽²⁾	-351,203,847	-	-
	-	342,829,686	327,794,752
Fletcher Challenge Paper Shares			
Number of Shares at the beginning of the year	637,884,780	636,630,377	636,211,559
Issue of Shares	-	1,254,403	423,725
Net Movement in Shares accounted for under the Treasury Stock method	-	-	-4,907
Cancellation of Shares ⁽³⁾	-637,884,780	-	-
	-	637,884,780	636,630,377

(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 2001, 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.

			<i>2001</i>	<i>2000</i>	<i>1999</i>
			<i>NZ\$m</i>	<i>NZ\$m</i>	<i>NZ\$m</i>
12 Capital <i>continued</i>					
Capital Funds	<i>Coupon</i>	<i>Election Date</i>			
Series 1999 Capital Notes	12.00%	31 October 1999	–	–	20
Series 2000 Capital Notes	9.50%	30 April 2000	–	–	57
Series 2000 Capital Notes	14.50%	30 September 2000	–	152	152
Series 2001 Capital Notes	12.25%	31 October 2001	–	100	100
Series 2002 Capital Notes	11.25%	15 December 2002	–	78	78
Series 2003 Capital Notes	8.05%	15 June 2003	–	72	72
Series 2003 Capital Notes	10.30%	30 November 2003	–	48	48
Series 2004 Capital Notes	8.00%	15 April 2004	–	102	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	193
Fletcher Challenge Group Capital Funds			–	766	822

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 are included within the cash flow from Discontinued Operations.

Notes to the Financial Statements *continued***12 Capital** *continued***Options on Share Capital**

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 and Fletcher Challenge Building options in consideration for bringing forward the exercise date of their options. As a consequence, Fletcher Challenge Forests and Building options have now lapsed.

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.

Fletcher Challenge Forests Options

	2001		2000		1999	
	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	7,772,392	\$2.75
Options granted during the year where the exercise price is less than the market price of shares (at grant date)	–	–	–	–	638,653	\$1.07
Options granted during the year where the exercise price exceeds the market price of shares (at grant date)	–	–	52,190	\$0.96	520,664	\$1.09
Options lapsed during the year	-8,134,644	\$2.74	–	–	-378,163	\$2.83
Options forfeited during the year	-3,675	\$3.47	-269,202	\$3.12	-198,215	\$2.59
Options outstanding at the end of the year	–	–	8,138,319	\$2.64	8,355,331	\$2.59
Options exercisable at the end of the year	–	–	5,587,374	\$2.97	3,550,800	\$2.74
Options not exercisable due to exercise period not yet reached	–	–	2,550,945	\$1.92	4,804,531	\$2.48
Weighted average remaining contractual life of outstanding options		–		5 years		6 years
Total Compensation Cost recognised in income		<\$1m		\$1m		\$1m
Weighted average fair value of options granted during the year where the exercise price is less than the market price of shares (at grant date)		–		–		\$0.14
Weighted average fair value of options granted during the year where the exercise price exceeds the market price of shares (at grant date)		–		\$0.61		\$0.14

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:

		2001 Weighted Average Value	2000 Weighted Average Value	1999 Weighted Average Value
Estimated life of options	years	–	10	10
Estimated volatility of options	%	–	40.0	22.0
Estimated dividends per share	cents	–	1.5	9.0

12 Capital *continued***Fletcher Challenge Building Options**

	2001		2000		1999	
	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	6,405,970	\$4.43
Options granted during the year where the exercise price exceeds the market price of shares (at grant date)	-	-	641,890	\$2.41	1,324,588	\$3.13
Options exercised during the year	-	-	-	-	-53,546	\$1.59
Options lapsed during the year	-7,702,127	\$4.29	-	-	-159,780	\$5.20
Options forfeited during the year	-2,390	\$5.66	-220,574	\$4.93	-234,031	\$4.32
Options outstanding at the end of the year	-	-	7,704,517	\$4.19	7,283,201	\$4.30
Options exercisable at the end of the year	-	-	4,340,816	\$4.98	3,162,917	\$4.71
Options not exercisable due to exercise period not yet reached	-	-	3,363,701	\$3.18	4,120,284	\$3.98
Weighted average remaining contractual life of outstanding options		-		5 years		6 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		\$0.33

The weighted average fair values granted were calculated using the Black-Scholes options pricing formula. Significant assumptions used in applying this formula were as follows:

		2001 Weighted Average Value	2000 Weighted Average Value	1999 Weighted Average Value
Estimated life of options	years	-	10	10
Estimated volatility of options	%	-	35.0	20.0
Estimated dividends per share	cents	-	20.9	27.8

Notes to the Financial Statements *continued***12 Capital** *continued***Fletcher Challenge Energy Options**

	2001		2000		1999	
	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	8,746,392	\$5.16
Options granted during the year where the exercise price is less than the market price of shares (at grant date)	-	-	-	-	561,930	\$4.62
Options granted during the year where the exercise price exceeds the market price of shares (at grant date)	-	-	1,148,715	\$5.15	1,204,024	\$4.31
Options exercised during the year	-9,483,626	\$5.55	-455,403	\$4.08	-160,425	\$2.91
Options lapsed during the year	-359,800	\$4.61	-	-	-145,625	\$5.52
Options forfeited during the year	-2,389	\$6.01	-335,527	\$5.99	-718,266	\$5.81
Options outstanding at the end of the year	-	-	9,845,815	\$5.31	9,488,030	\$5.14
Options exercisable at the end of the year	-	-	6,942,836	\$5.61	5,192,941	\$5.51
Options not exercisable due to exercise period not yet reached	-	-	2,902,979	\$4.59	4,295,089	\$4.69
Weighted average remaining contractual life of outstanding options	-	-	-	4 years	-	5 years
Total Compensation Cost recognised in income	-	-	-	\$1m	-	\$1m
Weighted average fair value of options granted during the year where the exercise price is less than the market price of shares (at grant date)	-	-	-	-	-	\$0.43
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	-	\$0.32

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:

		2001 Weighted Average Value	2000 Weighted Average Value	1999 Weighted Average Value
Estimated life of options	years	-	5	7
Estimated volatility of options	%	-	40.0	22.0
Estimated dividends per share	cents	-	22.4	24.8

12 Capital *continued***Fletcher Challenge Paper Options**

	2001		2000		1999	
	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	8,297,220	\$3.93
Options granted during the year where the exercise price is less than the market price of shares (at grant date)	–	–	–	–	841,734	\$2.02
Options granted during the year where the exercise price exceeds the market price of shares (at grant date)	–	–	39,300	\$1.43	413,928	\$2.03
Options lapsed during the year	–	–	-8,839,159	\$3.84	-494,106	\$3.80
Options forfeited during the year	–	–	–	–	-258,917	\$4.03
Options outstanding at the end of the year	–	–	–	–	8,799,859	\$3.77
Options exercisable at the end of the year	–	–	–	–	4,170,359	\$3.94
Options not exercisable due to exercise period not yet reached	–	–	–	–	4,629,500	\$3.62
Weighted average remaining contractual life of outstanding options		–		–		6 years
Total Compensation Cost recognised in income		–		\$2m		\$1m
Weighted average fair value of options granted during the year where the exercise price is less than the market price of shares (at grant date)		–		–		\$0.24
Weighted average fair value of options granted during the year where the exercise price exceeds the market price of shares (at grant date)		–		\$0.61		\$0.24

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:

		2001 Weighted Average Value	2000 Weighted Average Value	1999 Weighted Average Value
Estimated life of options	years	–	10	10
Estimated volatility of options	%	–	40.0	20.0
Estimated dividends per share	cents	–	4.5	9.0

Notes to the Financial Statements *continued*

<i>Fletcher Challenge Forests Limited</i>			<i>Fletcher Challenge Forests Group</i>		
2000	2001		2001	2000	1999
NZ\$m	NZ\$m		NZ\$m	NZ\$m	NZ\$m
13 Reserve Movements					
1,982	3,633	Reserves at the beginning of the year	3,633	1,982	2,371
14	-31	Net Earnings	-107	382	101
1,730	-57	Revaluation of Investment in Subsidiaries			
-	-	Investment Revaluation	-187	714	-1
-	-	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 note 23)					
-	-		745	708	-312
-93	-54	Dividends and Distributions paid and proposed (refer note 11)	-90	-153	-177
3,633	-44	Total Reserves	-44	3,633	1,982
Reserve Transfers					
-	-	Equity Earnings of Associates transferred from Revenue Reserves	-14	-118	-110
-	-	Retained Earnings of Associates transferred to Revenue Reserves upon Realisation	-	4	-
14 Reserve Balances					
Reserves comprise:					
953	868	Revenue Reserves	-458	2,381	2,030
-	-	Retained Earnings in Associates	-289	-298	-176
-	-	Investment Revaluation	-	765	51
-	-	Net Currency Translation	703	785	77
2,680	-912	Subsidiary Investment Revaluation	-	-	-
3,633	-44	Total Reserves	-44	3,633	1,982
15 Minority Equity					
-	-	Share Capital	-	1,081	-
-	-	Reserves	30	1,087	-
-	-		30	2,168	-
Included within Minority Equity for June 2000 is Minority Equity of \$2,132 million related to Discontinued Operations.					
16 Cash and Liquid Deposits					
-	13	Cash and Bank Balances	51	6	
17 Stocks					
-	-	Raw Materials and Work in Progress	8	7	
-	-	Finished Goods	67	57	
-	-	Consumable Stores and Spare Parts	2	2	
-	-		77	66	

<i>Fletcher Challenge Forests Limited</i>		<i>Fletcher Challenge Forests Group</i>	
2000	2001	2001	2000
NZ\$m	NZ\$m	NZ\$m	NZ\$m
18 Debtors			
-	-	48	71
-	-	-3	-2
-	-	45	69
3	1	5	14
3	1	50	83
19 Fixed Assets			
Cost			
-	-	159	147
-	-	36	33
-	-	43	42
17	-	243	224
17	-	481	446
Accumulated Depreciation			
-	-	-12	-11
-16	-	-111	-97
-16	-	-123	-108
1	-	358	338
Land and Buildings Analysis			
-	-	67	64
-	-	159	147
-	-	226	211
Domicile of Fixed Assets			
1	-	358	338
Functional Currency of Fixed Assets			
1	-	-	-
-	-	358	338
1	-	358	338
At 30 June 2001 the fair value of Land and Buildings (excluding Forest Land), based upon Government valuations, was approximately \$67 million.			

Notes to the Financial Statements *continued*

	<i>Fletcher Challenge Forests Group</i>	
	2001	2000
	NZ\$m	NZ\$m
20 Plantation Forest Crop		
Plantation forest crop at valuation	1,123	–
Plantation forest crop (historical cost)	–	1,648
	1,123	1,648
Opening Crop Carrying Value	1,648	1,411
Capitalised Interest	111	108
Forest Costs Capitalised	18	21
Cost of Depletions ⁽¹⁾	-86	-90
Permanent Impairment ⁽²⁾	-207	–
Currency Translation	264	198
Revaluation ⁽³⁾	-625	–
Closing Crop Carrying Value	1,123	1,648

(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) 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 note 3).

The following table summarises the valuation by age class:

	<i>Ha (000's)</i>	<i>NZ\$m</i>
1-5 years	19	23
6-10 years	16	45
11-15 years	24	180
16-20 years	32	376
21-25 years	20	386
Over 25 years	5	113
	116	1,123

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

<i>Years</i>	<i>Radiata</i>					<i>Other Species</i>	<i>Total</i>
	<i>Pruned</i>	<i>Structural</i>	<i>Utility</i>	<i>Industrial</i>	<i>Pulp</i>		
2002-2006	0.9	0.9	4.0	1.5	2.5	0.2	10.0
2007-2011	2.6	2.0	3.8	2.3	2.7	0.2	13.6
2012-2016	2.5	3.1	4.1	2.5	2.8	0.1	15.1
2017-2021	1.8	2.2	4.1	2.2	2.5	–	12.8
2022-2026	1.8	1.5	3.5	1.9	1.9	–	10.6
2027-2031	0.3	0.2	0.4	0.2	0.2	1.1	2.4

The following table summarises the prices (by sales grade) adopted for the valuation and the June 2001 quarter prices:

	<i>Radiata</i>					<i>Other Species</i>
	<i>Pruned</i>	<i>Structural</i>	<i>Utility</i>	<i>Industrial</i>	<i>Pulp</i>	
12 Quarter NZ\$/m ³	177	108	102	61	56	116
June 2001 Quarter NZ\$/m ³ (for information purposes)	168	107	100	54	54	105

<i>Fletcher Challenge Forests Limited</i>		<i>Fletcher Challenge Forests Group</i>	
2000	2001	2001	2000
NZ\$m	NZ\$m	NZ\$m	NZ\$m
21 Investments			
-	-	21	502
-	-	357	557
-	-	-	3
47	-	-	5
3	-	-	-
6,610	1,768	-	-
6,660	1,768	378	1,067

(a) Combined Associates' Statement of Financial Position			
-	-	181	288
-	-	33	2,971
-	-	214	3,259
-	-	-71	-251
-	-	-92	-1,993
-	-	-163	-2,244
-	-	51	1,015
-	-	-30	-513
-	-	21	502

(1) Included within Term Assets is goodwill of \$7 million.

Loans to the Central North Island Forest Partnership of \$357 million (30 June 2000: \$557 million) are due within one year and bear interest as at 30 June 2001 of 7.8 per cent (30 June 2000: 8.70 per cent to 9.51 per cent). During the year accrued interest of \$26 million (30 June 2000: \$42 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 writedown 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. The ultimate outcome and timing of the sale process and extent of the recoverability of subordinated debt are uncertain.

On 30 June 2001, the loan was further written down to US\$145 million (NZ\$357 million).

22 Creditors			
-	-	76	77
-	-	3	-
-	-	5	5
18	19	24	22
18	19	108	104

<i>Fletcher Challenge Forests Limited</i>		<i>Fletcher Challenge Forests Group</i>		
2000	2001		2001	2000
NZ\$m	NZ\$m		NZ\$m	NZ\$m
24 Term Debt				
Loans subject to Restrictive Undertakings:				
26	369	Loans with Floating Interest Rates	369	–
–	–	Loans with Fixed Interest Rates	5	–
–	–	Term Debt Attributed ⁽¹⁾	–	776
26	369	Term Debt	374	776
Summary of Repayment Terms				
Due for Repayment:				
–	369	between three and four years	369	–
26	–	after five years	5	–
–	–	Term Debt Attributed ⁽¹⁾	–	776
26	369	Term Debt	374	776
Summary of Interest Rates by Repayment Period (%)				
Due for Repayment:				
–	6.7	between three and four years	6.7	–
8.2	–	after five years	13.0	7.4
8.2	6.7	Weighted Average Interest Rate	6.8	7.4
Summary of Interest Rates by Currency (%)				
8.2	–	New Zealand Dollar	13.0	–
–	6.7	United States Dollar	6.7	7.4
8.2	6.7	Weighted Average Interest Rate	6.8	7.4
Denomination of Currencies:				
26	–	New Zealand Dollar	5	–
–	369	United States Dollar	369	776
26	369	Term Debt	374	776

(1) Prior to Separation, Term Debt of the continuing operations is represented by the debt attributed by the Fletcher Challenge Group to the Forests Division as part of the targeted share structure. Repayment terms were not attributed on a Divisional basis.

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 a negative pledge referred to as the Restrictive Undertakings which ensures that external senior indebtedness of the Restricted Group ranks equally in all respects. The negative pledge includes the covenant that security can be given only in very limited circumstances. The covenants, which are to be 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 reduces to 3.75 times.
- (ii) Earnings before interest, taxation, depreciation, amortisation, revaluations and forest management costs must exceed interest expense by 2.25 times. From June 2002, the covenant increases to 2.5 times.
- (iii) Net Equity must remain above US\$400 million.

Unused Committed Lines of Credit

At 30 June 2001 the Group had \$123 million in unutilised committed lines of credit subject to ratio compliance. The facility of \$123 million expires within four years.

Notes to the Financial Statements *continued*

25 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 are entered into to eliminate the exposure.

The Group has announced its intention to migrate 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, the Group has maintained the majority of debt at a floating rate. The Group has confirmed that its policy going forward will be to maintain a fixed interest ratio in the range of 40 per cent to 70 per cent of total debt outstanding, and will migrate floating rate debt to within that range over the next 12 months.

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

(2) Balance Sheet Risk

Currency forward exchange contracts have been entered into in order to manage the Group's currency exposure.

Fluctuations in currency exchange rates give rise to market risk that the underlying exposure and hedge financial instruments may change in value over time. The total principal or contract amounts of currency forward exchange contracts are as follows:

	<i>Fletcher Challenge Forests Group</i>	
	2001	2000
	<i>NZ\$m</i>	<i>NZ\$m</i>
Foreign Exchange		
Currency Forward Exchange Contracts		
To Pay	8	6
To Receive	-8	-6
	-	-

The cash settlement amounts of these instruments, if they had settled on 30 June 2001, approximates the principal or contract amounts.

25 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 counterparty.

Contracts have been entered into with various counterparties in accordance with limits set forth by Management as to credit rating and dollar limits. Fletcher Challenge 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 counterparties, it does not expect such losses to occur.

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

(4) Interest Rate Repricing

In line with the 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:

	<i>Fletcher Challenge Forests Group</i>			
	2001		2000	
	<i>NZ\$m</i>	<i>%</i>	<i>NZ\$m</i>	<i>%</i>
Interest Rate Repriced:				
(including average interest rate)				
within one year	369	6.7	–	–
after five years	5	13.0	–	–
Term Debt Attributed ⁽¹⁾	–	–	776	7.4

(1) Prior to Separation, Term Debt was attributed by the Fletcher Challenge Group to the Forests Division as part of the targeted share structure.

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 from carrying values.

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 are estimated based on the quoted or estimated market prices of those instruments.

Investments

It is not practical to estimate fair values of unlisted investments as there are no quoted market prices for those or similar investments. Unlisted investments are carried at net asset backing or at historical cost (refer note 21). 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***26 Pro Forma Financial Information**

The following Statement of Financial Performance has been prepared on a pro forma basis to provide comparative information to the Forests Division financial statements previously published in the Fletcher Challenge Group Financial & Operating Report.

Statement of Financial Performance

for year ended 30 June

	2001	2000	1999
	NZ\$m	NZ\$m	NZ\$m
Operating Revenue	648	623	545
Operating Expenses			
Recurring	-619	-553	-493
Unusual Items ⁽²⁾	-828	7	80
Operating Earnings	-799	77	132
Forest Crop Revaluation	-56	-	-
Earnings before Taxation	-855	77	132
Taxation	125	106	22
Earnings after Taxation	-730	183	154
Minority Interest	-5	-2	-
Equity Earnings	-14	-100	-99
Net Earnings ^{(1) (2)}	-749	81	55

(1) The Pro Forma Forests Division Net Earnings include the following non-trading adjustments:

Net Earnings	-749	81	55
Less Writedown of investment in Central North Island Forest Partnership	533	42	21
Less Other Unusual items and Writedowns (net of taxation)	39	-7	-70
Less Forest Revaluation (net of taxation)	174	-	-
Less Taxation Allowance Adjustment	-	-93	-
Net Earnings before Writedowns, Unusual Items and Forest Revaluation on a Forests Division Basis	-3	23	6

(2) Included within Operating Earnings are the following Unusual Items:

- Gain on Disposal of Affiliates in June 2001 relating to the gain on the sale of biotechnology and South American assets of \$26 million (\$25 million net of taxation). Gain on Disposal of Affiliates in June 1999 relating to the sale of Chilean forestry operations of \$108 million.
- Restructuring Costs in June 2001 of \$63 million (\$55 million net of taxation) and in June 2000 of \$4 million associated with the separation of the Fletcher Challenge targeted share structure.
- Permanent Impairment in June 2001 relating to the investment in the Central North Island Forest Partnership of \$768 million (\$533 million net of taxation), the New Zealand forest estate of \$14 million (\$11 million net of taxation) and Tasman KB of \$1 million. Permanent Impairment in June 1999 relating to the carrying value of non forest estate assets of \$14 million (\$9 million net of taxation) and losses from Chile forest fire of \$14 million (\$5 million net of taxation).
- Other Gains/(Losses) for June 2001 relating to provisions established to cover costs for defending the claims of CITIC New Zealand Limited of \$5 million and the write off of a debtor of \$3 million related to the Chilean forestry operations. Other Gains/(Losses) for June 2000 relating to the receipt of Chile forest fire insurance proceeds of \$11 million.

26 Pro Forma Financial Information *continued*

In preparing the Fletcher Challenge Forests Group Financial Statements interest was capitalised on an “avoided cost” basis. This required that interest on an amount equal to 100 per cent of the expenditure to date on forest assets be capitalised to the respective assets. However, within the Fletcher Challenge Forests Divisional Financial Statements, it was considered appropriate to capitalise interest only to the extent the Division was attributed interest on the attributed debt. As the Fletcher Challenge Forests Division had been attributed less debt than the expenditure to date on forest assets, a lower level of interest was capitalised to the forest assets in the Fletcher Challenge Forests Divisional Financial Statements than in the Fletcher Challenge Forests Group Financial Statements. This resulted in the carrying value of forest assets in the Fletcher Challenge Forests Financial Statements being less than the carrying value in the Fletcher Challenge Forests Group Financial Statements. The different level of interest capitalisation caused two other consequential adjustments: Depletions and Provision for Deferred Taxation. Depletions were based on the total costs, including interest capitalised, of the stands of trees harvested in the period. Consequently, if the amount of interest capitalised was different, thus changing total costs, so was the resulting amount of depletions on the trees harvested. This resulted in lower depletions in the Fletcher Challenge Forests Divisional Financial Statements than in the Fletcher Challenge Forests Group Financial Statements for the same stands of trees harvested due to the different carrying cost of these stands. The Provision for Deferred Taxation was altered because the interest capitalisation gave rise to a timing difference for taxation purposes. If the total amount of interest capitalised and depletions was different, so was the resulting timing difference and hence the level of deferred taxation provided.

Reconciliation of Pro Forma Forests Division and Fletcher Challenge Forests Group Financial Performance from Continuing Operations

	<i>2001</i> <i>NZ\$m</i>	<i>2000</i> <i>NZ\$m</i>	<i>1999</i> <i>NZ\$m</i>
Net Earnings per Pro Forma Forests Division	-749	81	55
Consolidation Adjustments			
Depletions	-30	-27	-28
Taxation and Minority on Capitalised Interest from Discontinued Operations	-20	-18	-26
Forest Crop Impairment and Revaluation	-578	-	-
Gain on Sale of Forest Assets	-	-	-42
Chile Forest Fire	-	-	-6
Net Earnings per Fletcher Challenge Forests Group	-1,377	36	-47

Notes to the Financial Statements *continued*

<i>Fletcher Challenge Forests Limited</i>		<i>Fletcher Challenge Forests Group</i>	
2000	2001	2001	2000
NZ\$m	NZ\$m	NZ\$m	NZ\$m
27 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:			
6	–	2	1
6	–	2	2
6	–	2	2
6	–	2	2
6	–	1	3
23	–	2	4
53	–	11	14

Operating lease commitments relate mainly to occupancy leases of buildings.

28 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 (30 June 2000: \$47 million attributed as part of the targeted share structure).

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"), which is now in receivership. The claims made by CITIC relate to a number of issues in connection with the management of the Partnership and to the value of the assets purchased by CITIC from the Fletcher Challenge Group upon the establishment of the Partnership in 1996. CITIC has sought a declaration that the management agreement between the Partnership and Fletcher Challenge Forests Industries was validly cancelled by CITIC in December 1999. CITIC is also seeking a substantial award of damages, although it has not formally quantified its claims against the Fletcher Challenge Forests Group. However, in a letter to the Partnership in August 2000, CITIC separately itemised the losses allegedly suffered by the Partnership which form the basis of its claims against Fletcher Challenge Forests 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. CITIC is seeking compensation for one-half of any losses suffered by the Partnership. In November 2000, CITIC purported to assign its interest in the claims to an associated company. This was prior to the appointment of Receivers in February 2001. In November 2001, the High Court will consider whether this assignment is valid, an important preliminary issue which will determine how, and possibly if, the litigation brought by CITIC will proceed. Fletcher Challenge Forests believes the claims are substantially without merit and if they are pursued they will be vigorously defended. A provision of \$5 million was established in December 2000 to cover the costs of that defence.

A claim for US\$28.6 million has been made against Fletcher Challenge Forests Industries Limited and Fletcher Challenge Forests USA Inc by Precision Lumber Corporation. The claim (which Fletcher Challenge Forests believes to be without merit) alleges unauthorised and unlawful use of trade secrets and confidential information and interference with Precision Lumber Corporation's business relationships.

Since the Separation Process, the assets and liabilities of Fletcher Challenge Building, Fletcher Challenge Energy and Fletcher Challenge Paper are no longer held by Fletcher Challenge Forests Limited. However, some of the assets and liabilities were difficult to isolate or to transfer and therefore the new owners of the former Fletcher Challenge divisions entered into an agreement, the Assets and Liabilities Deed, by which the economic benefits and risks of these assets and liabilities were assumed by the new owner of the division to which they were properly attributed. Any claims now made on Fletcher Challenge Forests that are properly attributed to one or more of the other three former divisions would require Fletcher Challenge Forests to exercise its rights under the Assets and Liabilities Deed to require payment from the relevant owner. Fletcher Challenge Forests is exposed to the risk that, in these circumstances, the new owners` will not make the required payment. If this were to occur, it could have an adverse effect on Fletcher Challenge Forests' financial condition or results of operation.

Fletcher Challenge Forests Limited has also guaranteed certain internal transactions relating to subsidiary companies. No losses are expected in respect of these transactions.

29 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.

30 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 US\$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 2001:

	<i>NZ\$million</i>
Public and product liability	250
Loss or damage to Group property including business interruption	250
Marine public liability	100

The Company has made provision for reported and estimated unreported losses incurred at balance date.

	<i>Fletcher Challenge Forests Group</i>	
	<i>2001</i>	<i>2000</i>
	<i>NZ\$m</i>	<i>NZ\$m</i>
31 Capital Expenditure Commitments		
Approved by the Directors but uncommitted at 30 June	1	5
Committed at 30 June	–	135
	1	140
For expenditure:		
within one year*	–	140
three years	1	–
	1	140

*Includes interest to be capitalised to Plantation Forest Crop of \$114 million for June 2000.

Notes to the Financial Statements *continued*

	2001 NZ\$m	2000 NZ\$m	1999 NZ\$m
32 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	134	125	86
Amounts owing relating to the purchase of logs and lumber from the Central North Island Forest Partnership, and included within Creditors	15	13	12
Sale of logs and lumber to the Central North Island Forest Partnership	32	41	27
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	38	47	28
Amounts owed relating to the sale of wood products to American Wood Moulding, and included within Debtors	1	3	5
Sale of wood products to Tasman KB	13	16	19
Amounts owed relating to the sale of wood products to Tasman KB, and included within Debtors	1	7	3
Sale of wood products to The Empire Company	16	13	–
Amounts owed relating to the sale of wood products to The Empire Company, and included within Debtors	1	2	–
Sale of Fixed Assets to Rubicon Limited ⁽¹⁾	80	–	–
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)	24	31	101
Net Term (Assets)/Liabilities from subsidiary companies included within Net Investment in Subsidiary Companies ⁽²⁾	-102	1,367	1,689

(1) 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.

(2) These advances are for no fixed term but represent long term funding advances, and bear interest at 8.0 per cent (June 2000: 6.5 per cent; June 1999: 8.2 per cent). The Principal Subsidiaries included within Net Investment in Subsidiary Companies are disclosed in note 38, 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 (the 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.

33 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:

	2001 NZ\$	2000 NZ\$	1999 NZ\$
1,000 Australian Dollars	1,246	1,284	1,242
1,000 United States Dollars	2,460	2,134	1,892

34 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 approximate effect of the adjustments necessary to restate Net Earnings and Fletcher Challenge Forests Group Equity and Capital Funds, are detailed below. No differences exist for the Statement of Cash Flows.

(i) 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.

(ii) Final Dividend

Under NZ GAAP, final dividends declared by the Board of Directors, post year end, are deducted in arriving at Reserves at the end of the accounting period. Under US GAAP, dividends are provided only when they are confirmed as a liability.

(iii) Minority Equity

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

(iv) 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 new accounting policy, the plantation forest crop asset is revalued to the Directors' estimate of market valuation. Under US GAAP, the carrying value of the plantation forest crop would continue to be recorded on a historical cost basis. In June 2001 this difference resulted in a reversal of the downward revaluation of \$555 million under US GAAP.

(v) 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 writedown in the carrying value of the New Zealand forest estate under US GAAP of \$117 million. In June 2000 this difference resulted in a reduced writedown in the carrying value of the investment in the Central North Island Forest Partnership (the Partnership) under US GAAP. In December 2000 the equity investment in 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 writedown under US GAAP.

(vi) Transfers among Entities Under Common Control

As part of the Separation Process, taxation benefits previously attributed to Fletcher Challenge Building, Forests and Paper have been 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.

(vii) Gain on Disposal of Subsidiaries

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 disposal of the subsidiary. The Currency Translation Reserve of Fletcher Challenge Energy and Paper 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 less (EEF differences) than that recorded under NZ GAAP. Further, a gain of \$3 million has been recorded under NZ GAAP for the sale of the South American operations to Rubicon Limited. Under US GAAP, the sale would not be recognised until title had passed.

Notes to the Financial Statements *continued*

34 United States GAAP Reconciliation *continued*

(viii) 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 certain and expected within two years. This criteria is more stringent than SFAS 109. However, the weight of the negative evidence indicates that for the periods presented it would be inappropriate to record further tax assets under either US GAAP or NZ GAAP. Accordingly, other than the tax impact on the GAAP differences noted, there are no adjustments for income taxes included in the reconciliation of Net Earnings and Total Group Equity and Capital Funds under US GAAP. The Group has adopted SFAS 109 disclosures in notes 7 and 23.

(ix) Employee Educational Fund

Following the changes in the Employee Educational Fund (EEF), the EEF ceased to be a consolidated in-substance subsidiary under NZ GAAP. However, consolidation continued to be required under US GAAP.

(x) Provisions

Under US GAAP, the costs of defending court proceedings should be expensed as incurred. Consequently, the accrual of such costs is not permitted.

(xi) Writedown of the Central North Island Forest Partnership (in Receivership)

During the 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 writedown in December 2000 is 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 writedown of the equity investment in December 2000 would have been recorded within Equity Earnings.

(xii) Reconciliation under US GAAP

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

	2001 NZ\$m	2000 NZ\$m	1999 NZ\$m
(a) Net Earnings			
Continuing Operations			
As reported in accordance with NZ GAAP	-1,377	36	-47
Approximate US GAAP adjustments:			
(iv) Revaluation of Plantation Forest Crop ⁽¹⁾	555	-	-
(v) Permanent Impairment ⁽²⁾	88	7	-
(vi) Transfer among Entities Under Common Control	-20	-	-
(vii) Gain on Disposal of Subsidiaries	-3	-	-
(ix) Employee Educational Fund	-	12	-
(x) Provisions	5	-	-
Approximate Net Earnings from Continuing Operations in accordance with US GAAP	-752	55	-47
Discontinued Operations			
As reported in accordance with NZ GAAP	1,270	346	148
Approximate US GAAP adjustments:			
(i) Adjustment on Acquisition	3	5	5
(vi) Transfer among Entities Under Common Control	-2	-	-
(vii) Gain on Disposal of Subsidiaries	800	-	50
(ix) Employee Educational Fund	-	104	-
Approximate Net Earnings from Discontinued Operations in accordance with US GAAP ⁽³⁾	2,071	455	203

(1) Net of taxation credit of \$61 million (June 2001).

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

(3) Net Earnings from Discontinued Operations under US GAAP include a taxation expense of \$252 million (June 2000: \$187 million; June 1999: \$7 million).

	2001 NZ\$m	2000 NZ\$m	1999 NZ\$m
34 United States GAAP Reconciliation <i>continued</i>			
(xii) 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	-86.6	6.5	-5.7
<i>Discontinued Operations</i>			
Fletcher Challenge Building	-47.7	25.0	4.6
Fletcher Challenge Energy	502.6	93.3	17.5
Fletcher Challenge Energy – Gain on Sale	419.6	–	–
Fletcher Challenge Energy – Trading Operations	83.0	–	–
Fletcher Challenge Paper	71.5	0.9	11.2
Fletcher Challenge Paper – Gain on Sale	70.4	–	–
Fletcher Challenge Paper – Trading Operations	1.1	–	–
Diluted Net Earnings per Share (cents)			
Fletcher Challenge Forests	-86.6	6.0	-6.0
<i>Discontinued Operations</i>			
Fletcher Challenge Building	-47.7	23.3	4.5
Fletcher Challenge Energy	439.3	77.8	16.9
Fletcher Challenge Energy – Gain on Sale	364.9	–	–
Fletcher Challenge Energy – Trading Operations	74.4	–	–
Fletcher Challenge Paper	63.2	0.9	10.9
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	868	846	824
Options and Option Equivalents	–	1	–
Shares held by the Employee Educational Fund	–	22	–
Brierley Option	–	–	19
Capital Notes	–	50	–
Denominator for Diluted Net Earnings per Fletcher Challenge Forests Share	868	919	843
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.			
Fletcher Challenge Building			
<i>Denominator (millions of shares)</i>			
Denominator for Basic Net Earnings per Fletcher Challenge Building Share	344	328	324
Shares held by the Employee Educational Fund	–	12	12
Capital Notes	–	60	–
Denominator for Diluted Net Earnings per Fletcher Challenge Building Share	344	400	336

Notes to the Financial Statements *continued*

	<i>2001</i>	<i>2000</i>	<i>1999</i>
	<i>NZ\$m</i>	<i>NZ\$m</i>	<i>NZ\$m</i>
34 United States GAAP Reconciliation <i>continued</i>			
(xii) 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	326
Options and Option Equivalents	2	1	–
Shares held by the Employee Educational Fund	–	11	11
Capital Notes	50	73	–
Denominator for Diluted Net Earnings per Fletcher Challenge Energy Share	399	414	337
Fletcher Challenge Paper			
<i>Denominator (millions of shares)</i>			
Denominator for Basic Net Earnings per Fletcher Challenge Paper Share	638	637	636
Shares held by the Employee Educational Fund	–	–	15
Capital Notes	107	–	–
Denominator for Diluted Net Earnings per Fletcher Challenge Paper Share	745	637	651
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 antidilutive effect on Trading Operations they were not included in the computation of Diluted Net Earnings per Share.			
(c) Total Group Equity and Capital Funds			
As reported in accordance with NZ GAAP	1,429	9,431	7,451
Approximate US GAAP adjustments:			
(i) Adjustment on Acquisition (Deferred Taxation)	–	-24	-29
(ii) Dividend (Provision for Dividend)	–	–	52
(iii) Minority Equity	-30	-2,168	-1,902
(iv) Revaluation of Plantation Forest Crop	555	–	–
(v) Permanent Impairment	117	29	22
(vii) Gain on Disposal of Subsidiaries	-3	–	–
(ix) Employee Educational Fund	–	26	–
(x) Provisions	5	–	–
Approximate Total Group Equity and Capital Funds in accordance with US GAAP	2,073	7,294	5,594

	2001 NZ\$m	2000 NZ\$m	1999 NZ\$m
34 United States GAAP Reconciliation <i>continued</i>			
(d) Changes in Total Group Equity and Capital Funds			
Total Group Equity and Capital Funds at the beginning of the year in accordance with US GAAP	7,294	5,594	5,891
Opening adjustment on adoption of SFAS 133	-169	-	-
	7,125	5,594	5,891
Net Earnings in accordance with US GAAP – Continuing Operations	-752	55	-47
Net Earnings in accordance with US GAAP – Discontinued Operations	2,071	455	203
Revaluation of Investments	-187	714	-1
Net Movement in Cash Flow Hedges	-18	-	-
Reversal of Revaluation Reserve upon Disposal of Investment	-316	-	-
Movement in Currency Translation Reserve	745	708	-312
Total Recognised Revenues and Expenses for the year under US GAAP	1,543	1,932	-157
Transfers among Entities Under Common Control	22	-	-
Disposal of Subsidiaries	-6,314	-	-50
Movement in Reported Capital	553	29	46
Movement in Capital Funds	-766	-56	32
Dividends and Distributions	-90	-205	-168
Approximate Total Group Equity and Capital Funds in accordance with US GAAP	2,073	7,294	5,594

Notes to the Financial Statements *continued***35 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 are members of the Fletcher Building Retirement Plan. These members have received an offer to transfer their accrued entitlements in that plan to a new retirement plan sponsored by Fletcher Challenge Forests which has not yet been established. Accordingly, no pension plan exists at 30 June 2001. The Company's liability to the Fletcher Building Retirement Plan is 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.

Prior to Separation, Pension plan balances of the continuing operations represents 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.

	2001 NZ\$m	2000 NZ\$m	1999 NZ\$m
Assets of Plans at Fair Value at the beginning of the year	–	46	46
Return on Assets	–	7	3
Benefit Payments	–	-3	-3
Assets of Plans at Fair Value	–	50	46
Vested Accumulated Benefit Obligation	–	41	39
Total Accumulated Benefit Obligation	–	41	39
Excess of Plan Assets over Accumulated Benefit Obligation	–	9	7
Projected Benefit Obligation at the beginning of the year	–	-42	-44
Service Cost	–	–	-1
Interest Cost	–	-2	-2
Actuarial gain/(loss)	–	-2	2
Benefit Payments	–	3	3
Total Projected Benefit Obligation at 30 June	–	-43	-42
Assets of Plans at Fair Value	–	50	46
Funded Surplus	–	7	4
Less Funded Surplus Recognised			
(i) in Earnings in current year – Periodic Cost	–	2	1
(ii) in Earnings in previous years	–	3	2
Recognised Funded Surplus ⁽¹⁾	–	5	3
Projected Unrecognised Funded Surplus/(Obligation)	–	2	1
Projected Unrecognised Funded Surplus/(Obligation) consists of:			
Unrecognised Net Gain	–	-3	-5
Remaining Unamortised Balance of the Net Pension Plan Transition Asset	–	5	6
Projected Unrecognised Funded Surplus/(Obligation)	–	2	1

(1) Recognised Funded Surplus included within note 21, Investments for June 2000 (\$5 million) and June 1999 (\$3 million).

	<i>2001</i> <i>NZ\$m</i>	<i>2000</i> <i>NZ\$m</i>	<i>1999</i> <i>NZ\$m</i>
35 Pension Plans <i>continued</i>			
Net Periodic Pension Cost			
Service Cost earned during the year	-	-	-1
Interest Cost on Projected Benefit Obligation	-	-2	-2
Return on Assets	-	7	3
Net Amortisation and Deferral			
(i) Transition Amount	-	1	1
(ii) Prior Service Cost	-	-	-1
(iii) Asset Gain/(Loss)	-	-4	1
Net Amortisation and Deferral	-	-3	1
Net Periodic Pension Cost	-	2	1

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:

	<i>2001</i> <i>%</i>	<i>2000</i> <i>%</i>	<i>1999</i> <i>%</i>
Assumed Discount Rate on Benefit Obligations	-	4.8	4.8
Expected Long Term Rate of Return on Plan Assets	-	6.0	6.5
Rate of Increase in Future Compensation Levels	-	4.0	4.0

Notes to the Financial Statements *continued*

36 Employee Remuneration

The Group operates in the international market where remuneration practices differ widely. In certain countries Group companies are obliged to provide superannuation contributions, mandatory post retirement benefits, redundancy and loss of office payments and medical benefits which are included in remuneration. Consequently when translated to New Zealand dollars, a substantial number of offshore employees earn in excess of NZ\$100,000. The bandings below include retirement and redundancy payments. Certain New Zealand-based executives are recruited from and operate in both the New Zealand and international arenas. Accordingly, these executives have been classified in the International Business Activities column below.

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 world-wide during the year are:

	Discontinued Operations			Continuing Operations		
	<i>New Zealand Business Activities</i>	<i>International Business Activities</i>	<i>Total</i>	<i>New Zealand Business Activities</i>	<i>International Business Activities</i>	<i>Total</i>
NZ\$100,000 to NZ\$110,000	42	32	74	18	2	20
NZ\$110,000 to NZ\$120,000	27	22	49	13	–	13
NZ\$120,000 to NZ\$130,000	17	18	35	12	–	12
NZ\$130,000 to NZ\$140,000	20	17	37	7	–	7
NZ\$140,000 to NZ\$150,000	16	10	26	3	–	3
NZ\$150,000 to NZ\$160,000	7	10	17	6	–	6
NZ\$160,000 to NZ\$170,000	10	13	23	4	1	5
NZ\$170,000 to NZ\$180,000	5	10	15	2	–	2
NZ\$180,000 to NZ\$190,000	7	12	19	2	–	2
NZ\$190,000 to NZ\$200,000	3	4	7	1	–	1
NZ\$200,000 to NZ\$210,000	7	2	9	–	1	1
NZ\$210,000 to NZ\$220,000	4	1	5	–	–	–
NZ\$220,000 to NZ\$230,000	3	2	5	1	–	1
NZ\$230,000 to NZ\$240,000	–	3	3	1	–	1
NZ\$240,000 to NZ\$250,000	4	2	6	–	–	–
NZ\$250,000 to NZ\$260,000	3	3	6	2	1	3
NZ\$260,000 to NZ\$270,000	–	–	–	–	2	2
NZ\$270,000 to NZ\$280,000	5	3	8	–	–	–
NZ\$280,000 to NZ\$290,000	1	–	1	–	–	–
NZ\$290,000 to NZ\$300,000	4	2	6	2	–	2
NZ\$300,000 to NZ\$310,000	2	2	4	1	–	1
NZ\$310,000 to NZ\$320,000	1	1	2	–	–	–
NZ\$320,000 to NZ\$330,000	–	1	1	–	1	1
NZ\$330,000 to NZ\$340,000	1	1	2	–	–	–
NZ\$350,000 to NZ\$360,000	–	2	2	–	–	–
NZ\$360,000 to NZ\$370,000	1	1	2	–	–	–
NZ\$370,000 to NZ\$380,000	–	2	2	–	1	1
NZ\$380,000 to NZ\$390,000	–	–	–	–	1	1
NZ\$390,000 to NZ\$400,000	2	1	3	–	–	–
NZ\$400,000 to NZ\$410,000	2	3	5	–	–	–
NZ\$410,000 to NZ\$420,000	1	2	3	–	–	–
NZ\$420,000 to NZ\$430,000	–	3	3	–	–	–
NZ\$430,000 to NZ\$440,000	1	1	2	–	1	1
NZ\$440,000 to NZ\$450,000	–	2	2	–	–	–
NZ\$450,000 to NZ\$460,000	1	1	2	–	–	–
NZ\$460,000 to NZ\$470,000	1	2	3	–	–	–
NZ\$470,000 to NZ\$480,000	–	3	3	–	–	–
NZ\$480,000 to NZ\$490,000	1	4	5	–	–	–
Subtotal	199	198	397	75	11	86

36 Employee Remuneration *continued*

	Discontinued Operations			Continuing Operations		
	<i>New Zealand Business Activities</i>	<i>International Business Activities</i>	<i>Total</i>	<i>New Zealand Business Activities</i>	<i>International Business Activities</i>	<i>Total</i>
NZ\$490,000 to NZ\$500,000	1	–	1	–	–	–
NZ\$510,000 to NZ\$520,000	1	1	2	–	2	2
NZ\$530,000 to NZ\$540,000	–	1	1	–	–	–
NZ\$550,000 to NZ\$560,000	1	–	1	–	–	–
NZ\$570,000 to NZ\$580,000	–	2	2	–	–	–
NZ\$580,000 to NZ\$590,000	–	3	3	–	–	–
NZ\$590,000 to NZ\$600,000	1	–	1	–	–	–
NZ\$630,000 to NZ\$640,000	–	1	1	–	–	–
NZ\$640,000 to NZ\$650,000	–	–	–	–	1	1
NZ\$650,000 to NZ\$660,000	1	–	1	–	–	–
NZ\$660,000 to NZ\$670,000	1	1	2	–	–	–
NZ\$670,000 to NZ\$680,000	–	1	1	–	1	1
NZ\$700,000 to NZ\$710,000	–	2	2	–	–	–
NZ\$720,000 to NZ\$730,000	1	1	2	–	–	–
NZ\$740,000 to NZ\$750,000	–	1	1	–	–	–
NZ\$750,000 to NZ\$760,000	–	1	1	–	–	–
NZ\$760,000 to NZ\$770,000	1	–	1	–	–	–
NZ\$770,000 to NZ\$780,000	–	1	1	–	–	–
NZ\$790,000 to NZ\$800,000	1	–	1	–	–	–
NZ\$810,000 to NZ\$820,000	–	1	1	–	–	–
NZ\$830,000 to NZ\$840,000	–	1	1	–	–	–
NZ\$840,000 to NZ\$850,000	1	2	3	–	–	–
NZ\$860,000 to NZ\$870,000	1	–	1	–	–	–
NZ\$870,000 to NZ\$880,000	–	1	1	–	–	–
NZ\$950,000 to NZ\$960,000	–	1	1	–	–	–
NZ\$990,000 to NZ\$1,000,000	–	1	1	–	–	–
NZ\$1,020,000 to NZ\$1,030,000	–	1	1	–	–	–
NZ\$1,050,000 to NZ\$1,060,000	–	1	1	–	–	–
NZ\$1,090,000 to NZ\$1,100,000	–	1	1	–	–	–
NZ\$1,150,000 to NZ\$1,160,000	–	–	–	–	1	1
NZ\$1,380,000 to NZ\$1,390,000	–	1	1	–	–	–
NZ\$1,500,000 to NZ\$1,510,000	–	1	1	–	–	–
NZ\$1,510,000 to NZ\$1,520,000	–	1	1	–	–	–
NZ\$2,120,000 to NZ\$2,130,000	–	1	1	–	–	–
NZ\$2,340,000 to NZ\$2,350,000	–	1	1	–	–	–
NZ\$2,360,000 to NZ\$2,370,000	–	1	1	–	–	–
NZ\$2,440,000 to NZ\$2,450,000	–	1	1	–	–	–
NZ\$2,860,000 to NZ\$2,870,000	–	1	1	–	–	–
Total	210	232	442	75	16	91

Notes to the Financial Statements *continued*

37 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 & 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 – takes lower quality logs through to high value engineered products used in post and beam houses in Japan, and supplies industrial lumber to Asian commercial customers.
- (iii) North American Consumer Solutions – takes clearwood from pruned logs through to high value moulding and millwork uses in North America.

Segmental EBIT Disclosure

“EBIT” is defined as Earnings before Forest Crop Revaluation, Taxation and Funding Costs which is described as Operating Earnings in the Statement of Financial Performance. Fletcher Challenge Forests believes that EBIT 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 EBIT as a measure of financial performance. It is not considered appropriate to allocate funding costs across the segments. EBIT is not an alternative to US GAAP earnings (loss, cash flows, or liquidity) as a measure of financial performance.

37 Segmental Information Summary *continued*

	Forest & Logs NZ\$m	Processing & Distribution			Total NZ\$m	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				
June 2001								
Operating Revenue	298	150	53	147	350	–	–	648
Earnings before Interest, Taxation, Depreciation and Depletions (EBITD)	-950	15	-3	18	30	–	–	-920
Less Depletions	86	–	–	–	–	–	–	86
Less Depreciation	11	9	1	5	15	–	–	26
Operating Earnings (EBIT)	-1,047	6	-4	13	15	–	–	-1,032
Unusual Items (included in EBIT)	-1,020	-1	–	–	-1	–	–	-1,021
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
North America	–	–	–	125	125	–	–	125
Australia	–	21	5	–	26	–	–	26
New Zealand	149	121	21	20	162	–	–	311
Europe	3	–	–	–	–	–	–	3
Asia	146	8	27	2	37	–	–	183
Total Operating Revenue by Destination	298	150	53	147	350	–	–	648
North America	–	–	–	-1	-1	–	–	-1
New Zealand	-1,047	6	-4	14	16	–	–	-1,031
Total EBIT	-1,047	6	-4	13	15	–	–	-1,032
North America	–	–	–	47	47	–	–	47
New Zealand	1,787	115	26	58	199	–	56	2,042
Asia	–	–	4	–	4	–	–	4
Total Assets	1,787	115	30	105	250	–	56	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***37 Segmental Information Summary** *continued*

	Forest & Logs NZ\$m	Processing & Distribution			Total NZ\$m	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				
June 2000								
Operating Revenue	278	161	53	131	345	–	–	623
Earnings before Interest, Taxation, Depreciation and Depletions (EBITD)	93	22	–	19	41	11	–	145
Less Depletions	90	–	–	–	–	–	–	90
Less Depreciation	10	6	1	3	10	–	–	20
Operating Earnings (EBIT)	-7	16	-1	16	31	11	–	35
Unusual Items (included in EBIT)	-4	–	–	–	–	11	–	7
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
North America	–	–	–	109	109	–	–	109
Australia	–	19	5	–	24	–	–	24
New Zealand	149	133	25	16	174	–	–	323
Europe	3	–	1	–	1	–	–	4
Asia	126	9	22	6	37	–	–	163
Total Operating Revenue by Destination	278	161	53	131	345	–	–	623
North America	–	–	–	1	1	–	–	1
New Zealand	-7	16	-1	15	30	–	–	23
South America	–	–	–	–	–	11	–	11
Total EBIT	-7	16	-1	16	31	11	–	35
North America	–	–	–	53	53	–	6,100	6,153
Australia	–	–	–	–	–	–	1,349	1,349
New Zealand	2,937	121	22	46	189	–	4,008	7,134
South America	–	–	–	–	–	29	1,076	1,105
Europe	–	–	–	–	–	–	18	18
Asia	–	–	–	–	–	–	635	635
Pacific Basin	–	–	–	–	–	–	63	63
Total Assets	2,937	121	22	99	242	29	13,249	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

37 Segmental Information Summary *continued*

	Forest & Logs NZ\$m	Processing & Distribution			Total NZ\$m	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				
June 1999								
Operating Revenue	243	139	10	117	266	36	-	545
Earnings before Interest, Taxation, Depreciation and Depletions (EBITD)	72	24	-12	9	21	54	-	147
Less Depletions	85	-	-	-	-	11	-	96
Less Depreciation	9	7	1	3	11	1	-	21
Operating Earnings (EBIT)	-22	17	-13	6	10	42	-	30
Unusual Items (included in EBIT)	-6	-	-8	-	-8	36	-	22
Total Assets	2,600	107	9	79	195	94	11,577	14,466
Investments in Associates	945	3	-	8	11	22	-	978
Investments – Other	6	-	-	-	-	-	-	6
Capital Expenditure	309	4	1	4	9	27	-	345
North America	-	-	-	98	98	1	-	99
Australia	1	22	-	-	22	-	-	23
New Zealand	141	108	-	14	122	-	-	263
South America	-	-	-	-	-	28	-	28
Europe	7	1	-	-	1	2	-	10
Asia	94	8	10	5	23	5	-	122
Total Operating Revenue by Destination	243	139	10	117	266	36	-	545
North America	-	-	-	5	5	-	-	5
New Zealand	-22	17	-13	1	5	-	-	-17
South America	-	-	-	-	-	42	-	42
Total EBIT	-22	17	-13	6	10	42	-	30
North America	-	-	-	35	35	-	4,639	4,674
Australia	-	-	-	-	-	-	1,276	1,276
New Zealand	2,600	107	9	44	160	-	4,084	6,844
South America	-	-	-	-	-	94	881	975
Europe	-	-	-	-	-	-	18	18
Asia	-	-	-	-	-	-	541	541
Pacific Basin	-	-	-	-	-	-	138	138
Total Assets	2,600	107	9	79	195	94	11,577	14,466

(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***38 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 2001, are outlined below:

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

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 18 to 74. The financial statements provide information about the past financial performance and cash flows of the Company and Group for the year ended 30 June 2001 and the financial position as at that date. This information is stated in accordance with the accounting policies set out on pages 18 to 22.

Directors' responsibilities

The Company's Directors are responsible for the preparation of financial statements which give a true and fair view of the financial position of the Company and Group as at 30 June 2001 and the 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 report our opinion to you.

Basis of opinion

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

- the significant estimates and judgements made by the Directors in the preparation of the financial statements; and
- whether the accounting policies are appropriate to the Company and Group circumstances, 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 advice and consultancy projects. The firm has no other relationship with or interests in the Company or any of its subsidiaries.

In forming our unqualified opinion, we have considered the adequacy of the disclosures included in Note 21 to the financial statements concerning the loan of \$357 million to the joint venture Central North Island Forest Partnership (CNIFP). The recoverability of this loan is fundamentally uncertain due to the current receivership status of CNIFP.

Unqualified opinion

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

In our opinion:

- proper accounting records have been kept by the Company as far as appears from our examination of those records; and
- the financial statements as expressed in New Zealand dollars on pages 18 to 74:
 - 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 2001 and their financial performance and cash flows for the year ended on that date.

Our audit was completed on 23 August 2001 and our unqualified opinion is expressed as at that date.

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

PricewaterhouseCoopers
Auckland
New Zealand

Senior Management

Terry McFadgen, Chief Executive Officer

Ian Boyd, Chief Operating Officer and General Manager, Forest and Logs

John Dell, Chief Financial Officer

Mark Eglinton, Commercial Director

Paul Gillard, Corporate Secretary and General Counsel

Adrian Gray, General Manager, Japan and Asia Consumer Solutions

Tom Nickels, General Manager, Australasian Consumer Solutions

Martin Plom, Acting General Manager, North American Consumer Solutions

Shareholder Statistics

Largest Shareholders

The 20 known shareholders in each share class with the largest holdings of shares as at 31 August 2001 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	387,714,739	42.10	797,318,336	42.88
Rubicon Forest Holdings Limited	75,000,000	8.14	417,148,663	22.43
Fletcher Challenge Building Trust Nominees Limited	12,318,476	1.33	–	–
Citicorp Nominees Pty Limited	10,099,178	1.09	21,413,372	1.15
New Zealand Guardian Trust Company Limited	3,576,080	0.38	–	–
Fletcher Challenge Forests Trust Nominees Limited	2,973,425	0.32	5,946,850	0.31
Investment Custodial Services Limited	2,816,026	0.30	–	–
Yarrow Consulting Limited	2,212,109	0.24	20,236,078	1.08
Macquarie Equities Custodians Limited	2,048,380	0.22	–	–
Macquarie Equities New Zealand Limited	1,394,620	0.15	–	–
Very Successful Co Limited	1,337,261	0.14	–	–
Tecity Management Pte Limited	1,320,280	0.14	–	–
Imperator Investments Limited	1,273,505	0.13	2,547,010	0.13
David Maurice Hodson	1,239,531	0.13	2,402,000	0.12
Norman Geoffrey Moss & Erin Margaret Moss	1,000,000	0.10	–	–
Derek Sydney Reed Lowe	1,000,000	0.10	–	–
Portfolio Custodians Limited	1,000,000	0.10	–	–
NZ Home Lease No 2 Limited	–	–	18,857,553	1.01
New Zealand Guardian Trust Company Limited	–	–	7,152,158	0.38
Jarden Custodians Limited	–	–	7,000,000	0.37
Credit Suisse First Boston NZ Custodians Limited	–	–	6,248,018	0.33
Hokonui Investments Limited	–	–	6,000,000	0.32
Answer Services Holdings Limited	–	–	6,000,000	0.32
Gemscott Limited	–	–	3,500,000	0.18
Robin MacDonald Smith	–	–	3,200,000	0.17
Peter Hanbury Masfen & Joanna Alison Masfen	–	–	3,000,000	0.16
Salvation Army Property NZ Trust Board	–	–	2,974,925	0.16
Patrick Wang	–	–	2,900,000	0.15
Hsu-Cheng Yang	900,000	0.09	2,850,000	0.15
Ja Hong Koo	900,000	0.09	–	–
Anthony John Fair	850,000	0.09	–	–
Forbar Custodians Limited	–	–	2,377,580	0.12
	510,973,610	55.38	1,339,072,543	71.92

New Zealand Central Securities Depository Limited (“NZCSD”) is a depository system which allows electronic trading of securities to its members. At 31 August 2001, 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	134,238,372	14.6	115,951,455	6.2
Westpac Banking Corporation State Street	87,086,297	9.5	173,321,652	9.3
National Nominees New Zealand Limited	82,693,252	9.0	175,715,321	9.5
Hong Kong Bank Nominees NZ Limited	26,346,010	2.9	–	–
ANZ Nominees Limited	24,086,826	2.6	91,961,073	5.0
The Trustees Executors And Agency Company of NZ Limited	10,652,529	1.2	40,367,808	2.2
AMP Superannuation Tracker Fund	7,719,841	0.8	15,439,709	0.8
BNZ Nominees Limited	3,273,412	0.4	–	–
Westpac Nominees NZ Limited	2,456,532	0.3	–	–
Tracker Nominees – AMP Investments	1,824,086	0.2	–	–
AMP Life Limited	–	–	41,550,467	2.2
AMP Investments Strategic Equity Growth Fund	–	–	24,799,500	1.3
National Mutual Life Ass of Australia – A Account	–	–	21,830,291	1.2
NZGT Nominees Limited – AIF Equity Fund	–	–	21,041,550	1.1
	380,377,157	41.5	721,978,826	38.8

Shareholder Statistics *continued*

Distribution of Shares – 31 August 2001

Size of Holdings	Fletcher Challenge Forests Ordinary				Fletcher Challenge Forests Preference			
	Shareholders Number	%	Shares Million	%	Shareholders Number	%	Shares Million	%
1 – 999*	15,191	32.4	7	0.8	3,618	14.3	2	0.1
1,000 – 4,999	17,095	36.4	38	4.1	9,271	36.9	23	1.3
5,000 – 9,999	5,402	11.5	36	3.8	3,401	13.6	24	1.3
10,000 – 49,999	7,710	16.4	145	15.6	6,693	26.6	140	7.5
50,000 – 99,999	898	1.9	57	6.1	1,120	4.5	73	3.9
100,000 – 499,999	627	1.3	102	11.0	937	3.7	166	8.9
500,000 – 999,999	44	0.1	28	3.0	60	0.2	37	2.0
1,000,000 and over	17	0.0	517	55.6	58	0.2	1,394	75.0
	46,984	100.0	930	100.0	25,158	100.0	1,859	100.0

*Less than a minimum holding.

Domicile of Registered Beneficial Owners*

	Fletcher Challenge Forests Ordinary		Fletcher Challenge Forests Preference	
	Million	%	Million	%
New Zealand	542.8	58.4	1,364.9	73.4
United States of America	268.0	28.8	410.5	22.1
Australia	16.7	1.8	13.0	0.7
United Kingdom/Europe	88.5	9.5	46.5	2.5
Canada	1.6	0.2	1.7	0.1
Asia/Japan	8.3	0.9	17.4	0.9
Other	3.7	0.4	5.0	0.3
	929.6	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 2001 the following persons have given notice (in terms of the New Zealand Securities Amendment Act 1988) that they are substantial security holders in the Company. In terms of the Act, the number of Fletcher Challenge Forests Ordinary and Preference Shares shown below is as last advised to the Company 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	417,148,663	17.8
Xylem Fund I, L.P.	67,751,894	135,503,788	7.3

Shareholder and Investor Information

Preference Shares: Fletcher Challenge Forests Limited has two classes of shares: Ordinary and Preference. The Preference shares rank equally with the Ordinary share in all respects (including dividend and voting rights) except that the Preference 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). 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.

Shareholder Transactions:

Shareholders with enquiries about share transactions, changes of address or dividend payments should contact the share registry in the country in which their shares are registered.

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 U.S. Private Securities Litigation Reform Act of 1995, and they are included herein in reliance upon the safe harbours created by that Act. 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.

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 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.fcncb.com
Website: www.citibank.com\adr

Reports to ADR Holders:

ADR holders receive publications issued to shareholders in two ways. If they are a holder of record (i.e. if the ADRs are held by them directly), the Annual Reviews and Financial & Operating Report will be sent to them at the record address. If the ADRs are held in a “Street Name” at a bank or brokerage firm, that institution is responsible for forwarding the publications to holders. Fletcher Challenge Forests Limited is subject to the requirements for information of the US Securities and Exchange Commission (SEC) as they apply to foreign companies. A Form 20-F is filed with the SEC (which corresponds to a Form 10-K for a US corporation) and other information as required.

Share Listings:

	<i>New Zealand</i>	<i>Australia</i>	<i>New York</i>
Ordinary	FFS	FFS	FFS
Preference	FFSPA	FFSPA	FFS.A

Dividend:

There is no 2001 dividend for Fletcher Challenge Forests shareholders.

ADR holders are eligible for all dividends or other entitlements attaching to the underlying shares of Fletcher Challenge Forests Limited and receive all cash dividends in US dollars. The ADR payment date is one day after the New Zealand date.

Shareholder and Investor Information *continued*

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New Zealand

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Private Bag 92 119,
Auckland

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 1115

Telephone: 61 2 8234 5478

Facsimile: 61 2 8234 5190

Auditors

PricewaterhouseCoopers

23-29 Albert 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

Other Investor Enquiries:

New Zealand or Internationally

Investor Relations Manager

Fletcher Challenge Forests Limited

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