



HEALTH, SAFETY AND ENVIRONMENT REPORT
FLETCHER CHALLENGE FORESTS LIMITED





1 Introduction

2 Overview

3 Policy

4 Health and Safety

- 4 Investing in our people
- 8 Our safety performance record

9 Environment – Forestry

- 9 Protecting our environment
- 13 Monitoring the effects of our forest operations on the environment
- 14 Our environmental performance record

15 Environment – Manufacturing

- 15 Managing our impact on the environment
- 18 Monitoring the effects of historical manufacturing operations on the environment
- 19 Our environmental performance record

20 Community

23 Auditor's Report

Fletcher Challenge Forests

Head Office

8 Rockridge Avenue

Penrose, Auckland

Private Bag 92036

Auckland Mail Centre

New Zealand

Telephone +64 9 571 9800

Facsimile +64 9 571 9801

Gavin Williamson

Manager

Health, Safety and Environment

Vaughan Road, Private Bag 3031

Rotorua

New Zealand

Telephone +64 7 350 0899

Facsimile +64 7 345 6181

Email: gavin.williamson@fcf.co.nz

Paul Gillard

Company Secretary

8 Rockridge Avenue

Penrose, Auckland

Private Bag 92036

Auckland Mail Centre

New Zealand

Telephone +64 9 571 9800

Facsimile +64 9 571 9872

Email: paul.gillard@fcf.co.nz

INTRODUCTION

Welcome to the Fletcher Challenge Forests' 2002 Health, Safety and Environment Annual Report.

Our performance in caring for the environment over the past year has been very satisfying. We retained our Forest Stewardship Council (FSC) certification following our first annual compliance audit, and we have also performed well by regularly meeting our compliance obligations in other areas. In the forest we have continued to work with Wingspan to further our understanding of the threatened New Zealand Falcon, and we carried out a number of wildlife assessments of other species, such as bats and kiwi. At our processing sites we have continued to understand and clean-up historic contamination.

During the last year we also continued to reduce the incidence of injuries in most of our operations, and several sites achieved one or more lost time injury free years. We also remain in the ACC partnership programme at the tertiary level, which is the highest level attainable. This is testimony to the quality of our processes and our people.

But whilst we have made very significant gains in safety performance over the past few years, improvements have reached a plateau and we have introduced a range of new initiatives to take us to the next level – with our target being zero. We are committed to being industry leaders in safety and protecting the health of all our people in the workplace.

The Company's commitment to health and safety in the workplace starts with the Chairman and Board, and rests ultimately with all of us.



Terry McFadgen
Chief Executive





OVERVIEW

Fletcher Challenge Forests is 100% committed to combining the commercial objectives of our business with the protection, growth and sustainability of our people and the environment.

In today's world, it is well-recognised that a successful company is a sustainable one – one that takes a holistic approach to business, measuring not just its financial performance in terms of profitability, but also considering the social and environmental implications of its work.

As a company employing close to 1500 permanent and 2000 contract staff across our three divisions, and as owners and managers of the largest certified forest area in New Zealand (360,000 hectares), we are responsible for a large number of people and an extensive amount of land.

With regards to the social side of business sustainability, we are committed to improving the health and well-being of all employees through initiatives such as the education and welfare funds, our Employee Assistance Programme and our drug and alcohol programme. We are also committed to working closely within the community on a variety of projects, ranging from school fundraising to helping charitable organisations.

Under the environmental side of business sustainability, we are constantly measuring and seeking to reduce our environmental impact, by achieving a high standard of environmental performance through our processing (manufacturing) and planted forest (forest) activities.

In this annual Health, Safety and Environment report, you'll find details about where Fletcher Challenge Forests stands in terms of its social and environmental goals. We believe the measures and results of our activities will ultimately lead to more effective use of our assets and better accountability to our employees, customers, shareholders and the community.

As a company, we are committed to doing all that we can to help the environment and the community in which we operate.

NB: This report refers only to facts and events which occurred during or before the 2001/2002 financial year, and does not include any statement or assessment relating to matters which may have occurred or been identified since 30 June 2002.



POLICY

- Our Commitment** Fletcher Challenge Forests Limited is committed to maintaining a safe and healthy workplace and a high standard of environmental performance throughout its processing and planted forest activities. We will give health, safety and environmental considerations equal status with the company's primary business objectives.
- Awareness** We will encourage a high degree of health, safety and environmental awareness through:
- Personal accountability
 - Commitment
 - Continuous performance improvement
 - Teamwork
- Operation** We will operate our business so that we meet or exceed statutory health, safety and environmental requirements and relevant Codes of Practice; and we will establish standards or protocols where they are known to not presently exist.
- Best Practices** We will develop and implement Best Management Practices where appropriate. In particular:
- To identify, control and monitor work-related health and safety hazards
 - To avoid, reduce or control waste and pollutants
 - To manage the natural and physical resources under our control in a renewable manner and to adopt practices which use energy effectively.
- Training** We are committed to training managers, employees, partners, contractors and third parties to ensure that they are competent in meeting the company's health, safety and environmental standards.
- Employee Involvement** We are committed to employee involvement in developing and reviewing health and safety management practices on our worksites.
- Continuous Improvement** We will actively monitor, audit and review procedures, processes and management systems, including objectives and targets, to ensure continuous improvement in health, safety and environmental performance.
- Planning** We will consider effects on health, safety and the environment in planning for any new developments, products and services.
- Responsibility and Compliance** Responsibility for application of this policy and compliance with the company's health, safety and environmental standards, lies with all company personnel, partners, contractors and any party working directly on behalf of Fletcher Challenge Forests.

Terry McFadgen
Chief Executive

Gavin Williamson
Manager, Health, Safety & Environment



HEALTH AND SAFETY



100% committed to... INVESTING IN OUR PEOPLE

Fletcher Challenge Forests has a number of programmes in place to ensure our employees receive the highest level of training and assessment in safety procedures, as well as counselling, rehabilitation and referral in terms of their health and wellbeing.

Through partnerships with ACC and Catalyst Injury Management, as well as our Employee Assistance Programme, Drug and Alcohol Programme, Safe Job Observations and a number of other initiatives outlined below, we are committed to providing a safe and healthy workplace for our employees. Our aim is to ensure that every one of our employees and contractors return to their families at the end of each day in a healthy and uninjured state.

PARTNERING WITH ACC AND CATALYST **The ACC partnership programme**

The ACC Partnership Programme allows employers to take responsibility for their own workplace health and safety and injury management. Fletcher Challenge Forests has achieved the highest level of compliance in the programme, tertiary level, and is due to be audited again at the end of 2002. The annual ACC partnership audit (scheduled for April) was delayed for eight months as a result of the recent implementation of the Injury Prevention, Rehabilitation and Compensation Act 2001, which brings about changes to the existing ACC partnership audit tool.

Our robust internal auditing schedule ensures that we continue to identify areas for improvement in the practical application of our health and safety management system. Each of the sites is well aware of our expectation that we remain at tertiary level

status and is supported throughout the procedure by site managers and members of the senior team.

Managing our work injuries **through Catalyst**

Fletcher Challenge Forests has contracted Catalyst Injury Management Limited to provide case and claims management services to our employees. The Catalyst case manager liaises with the Health and Safety staff on each site as well as employees who have suffered a work injury, working closely with treatment providers and assessors where the injury is more serious.

Catalyst assesses all work-related injury claims, considers treatment options, coordinates the rehabilitation process (ensuring compliance with agreed rehabilitation plans if necessary) and facilitates the return to work with the site. Very few claims become long-term (over a month in duration), and for

those that do, most are given selective duties within a few weeks of the injury. Studies suggest that the sooner a person can return to the workforce, the more likely it is that they will return to full independence. Fletcher Challenge Forests is committed to a responsible approach to work-related injuries.

**100% committed to...
OUR EMPLOYEES**



Employee well-being

The Employee Assistance Programme (EAP) provides an opportunity for employees to receive confidential, professional assistance with personal problems that could impact on their performance at work. Available to employees 24 hours a day and seven days a week, it also provides an emergency service to deal with critical incidents and trauma.

The programme supports our drug and alcohol policy, handling rehabilitation for employees with drug and alcohol problems, as well as dealing with a wider range of issues including stress, personal and work relationships, financial or legal issues, health issues, workplace conflict, grief and violence.

Run by an independent organisation (EAP Services), all counsellors are qualified, registered and experienced professionals, based off-site, and the service is free to employees (funded by the Fletcher Challenge Forests Employee Welfare Fund).



Employee health

The Drug and Alcohol policy remains a priority within the company, with 22 of the 266 tests conducted by ESR for the six months ending June 2002 recording positive.

The policy was revised in 2002, with specific attention to the separate procedures for managing an employee impaired due to alcohol and/or drugs. Revised reasonable cause training has taken place in Taupo, Waipa, Rainbow Mountain, Mount Maunganui and Kawerau. A further session was held for contractors that have existing drug and alcohol policies that are in line with the Fletcher Challenge Forests Policy.

Random testing across the company has been considered, as we believe it might improve safety and reduce accident rates. The focus in the meantime is on improving the effectiveness of the current policies and ensuring compliance.





Chainsaw lacerations and foot protection

Concern at the recent number of reported foot lacerations has prompted Fletcher Challenge Forests to contract COHFE to investigate the causes and incidence of these foot lacerations, the protective footwear currently available and to further investigate foot protection options.

The Approved Code of Practice (OSH, 1999) requires that all workers engaged in forest operations shall wear footwear of a recognised industry standard which gives support to the ankles and has steel toe-caps (complying with appropriate standards). Best industry practice guidelines state the requirement for safety boots, steel capped, leather boots or chainsaw-resistant gumboots (Forest Industries Training, 2000). There is, therefore, no current legal requirement for workers to wear cut-resistant footwear.

Cut-resistance can be introduced into footwear externally or internally, either during or after manufacture, and a range of materials has the potential to protect the user from chainsaw lacerations. Research, evaluation and feedback about new materials and footwear types is continuing and COHFE are in the process of testing products to meet the outstanding Fletcher Challenge Forests proposal outputs.

Employee education

The Fletcher Challenge Forests' Employee Educational Fund (EEF) funds educational initiatives that will clearly benefit an employee or group of employees and, in some instances, dependant family members. In so doing, it hopes to increase the level of competence within the workforce and the level of excellence within the company. All applications are considered by a Board of Trustees that administers the EEF independent of Fletcher Challenge Forests.



Log felling safety

Following an increase in 'serious harm' accidents in felling operations since October 2001, the Log Manufacturing Group recently put together a series of Safety Focus meetings for its employees, harvesting contractors and alliances.

The breakfast meetings featured presentations from harvesting alliance leaders and the Centre for Human Factors and Ergonomics (COHFE), as well as from Log Manufacturing's Health and Safety team and management. The focus was on serious recent accidents, accident statistics, chainsaw cuts to the left foot and ways to reduce the risk of injury during summer.

There was an excellent turnout at the meetings, with close to 100% attendance, and contractors responded positively to our commitment to forest safety issues and look forward to ongoing Safety Focus meetings.



Forest road safety

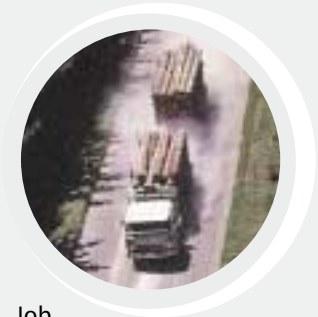
As a company, we manage an extensive off-highway network of roads, used for both work and recreational purposes, and Fletcher Challenge Forests has a clear responsibility to support and manage road-user behaviour on those roads. Many forget that forest roads expose drivers to a range of hazards that they would not come across on the public road.

To protect the safety of all those entering our forests, a Forest Road Safety Committee was developed to clearly set out the rules and driver behaviour required within this roading network. We now have a policy in place, along with a Road Safety Manual which outlines critical rules, required driver behaviours, access guidelines, hazards, traffic control, signage, security and emergency procedures. A demerit system has also been established, and drivers now receive notification of an infringement if a rule has been broken. A certain number of demerit points results in a suspension of permitted forest access.

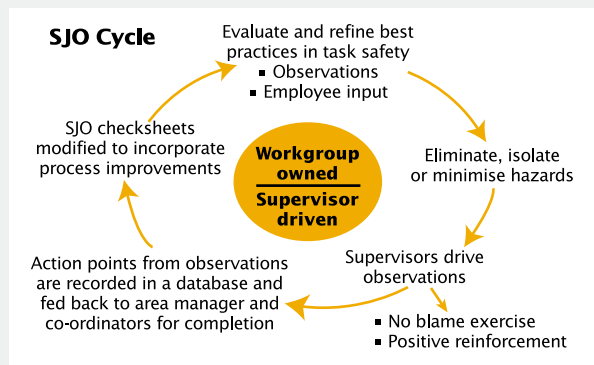
Seeking best practice safety systems

During 2001, the Waipa Sawmill management team introduced a long-term, behaviour-based safety initiative to build on the strong health and safety systems that already

existed, and extend its safety culture to one in which everyone actively participates in the safety and health of others.



The initiative, known as Safe Job Observations, began by breaking down tasks into individual steps. Where there was more than one way to perform a task, the 'safest way' was sought without compromising production. When satisfied that their 'Safe Job' procedures were sound, having identified and eliminated all previous hidden hazards, the team began regular observations of employees. These observations are conducted in a non-threatening environment, with positive reinforcement and coaching provided to operators identified as having problem areas.





OUR SAFETY PERFORMANCE RECORD

As a company, we take our legal obligations very seriously, so it is disappointing to report that we have incurred financial penalties at two of our processing sites this year for prosecutions under the Health and Safety in Employment Act 1992.

The first of these related to an accident at the Kawerau site in 2001 where an employee suffered injuries to two fingers on one hand and the company was fined \$3000. Judge Thomas concluded that, although this was an offence at the lower end of the scale, the incident reflected the very high standard expected of employers where dangerous machinery is concerned. He added that he had no doubt at all that Fletcher Challenge Forests has a comprehensive policy which it promotes to the best of its ability.

The second incident, at the Mount Maunganui Processing site, also related to a contractor damaging his hand in machinery. The company was fined \$6000. Judge Thomas considered the degree of culpability to be between low and medium. He noted that Fletcher Challenge Forests has an excellent safety record and a very responsible attitude to these areas, and concluded that we had taken every appropriate step.

These two prosecutions are the first for Fletcher Challenge Forests and the company is working hard to prevent such incidents in the future.





ENVIRONMENT FORESTRY



100% committed to... PROTECTING OUR ENVIRONMENT

Fletcher Challenge Forests is well aware that the commercial objectives of our business must be balanced with the conservation needs of the environment.

Through joint projects with the Department of Conservation, NIWA, Landcare Research and Wingspan, as well as our own Wildlife Management Plan, we are committed to not only minimising our environmental impact but also to protecting the environment in which we operate. Our aim is to use our natural resources wisely and in a manner that will ensure sustainability of the forests we manage for future generations.

Saving our native falcons

The New Zealand falcon is listed as a threatened species and numbers in the wild are in serious decline. The last formal survey in the 1970s suggested only 400 pairs remained in the North Island and a more recent study, undertaken in Marlborough last year, investigated some 25 known breeding sites and found only one nesting pair.

Threats are known to include predators such as possum, rats, ferrets, weasels and cats at nest sites and deliberate persecution (particularly shooting) through a lack of awareness and appreciation.

Fletcher Challenge Forests sponsors the Wingspan Birds of Prey Trust, established in 1992 for the rehabilitation of raptors (falcons and hawks), for their captive management, biological studies and education of the general public.

Falcons are known to live and breed in Kaingaroa Forest – a large exotic forest in the Central North Island managed by Fletcher Challenge Forests. Wingspan has monitored them here since 1994 in a collaborative research effort with the Department of Conservation and ourselves.



It would seem New Zealand falcons are benefiting from forestry management practices by utilising the clearings and cut overs from harvest rotations. These open areas provide a suitable nesting environment as well as ideal conditions for a variety of prey species, creating optimal hunting conditions for the falcons.

During the 2001/02 seasons, a total of 10 falcons were observed at three nests and, of these, eight juveniles and females were successfully captured and banded. Wingspan's Debbie Stewart sees this as an excellent example of commercial and conservation interests complementing one another. By utilising these forestry areas, New Zealand falcons may well be extending their breeding range from neighbouring native forest areas.

Caring for our wildlife

Fletcher Challenge Forests' Wildlife Management Plan has a number of projects aimed at protecting bats, kiwis and other birds.



Photo supplied by Heurisko Ltd

Both of the two species of bat found in New Zealand (the long-tailed bat and the short-tailed bat) were thought to be present in Fletcher Challenge Forests' estate, but little was known about them. Research was undertaken between November 2001 and March 2002 to determine the presence and distribution of these species, and large areas of

the forest were surveyed using automatic bat monitoring units, able to record the sounds made by bats which are outside the range of human hearing.

Long-tailed bats were present in a variety of habitats, from forested areas to clear cuts, but no evidence was found of short-tailed bats. (This species does tend to be more elusive and harder to detect however, so their presence in the forests cannot be ruled out.) Thanks to this research, we now have a clear understanding of where bats occur throughout the forest and the various requirements of the species.

The kiwi is, of course, of special interest to New Zealanders but it has disappeared from most of the North Island and is in general decline. In an attempt to discover whether kiwis remain in any of our managed forests, we commissioned Wildland Consultants to conduct a survey in August 2001.

Of the forests surveyed, kiwis were recorded in Taneatua, Stanley and Kererutahi Forests. While only a small number of calls were heard, the presence of kiwi in these areas is an exciting discovery and we have commissioned further work in 2002 to gain a better indication of the location and number of birds. We will use this information to ensure that the potential impact of operations in these forests will be minimised.

We have also carried out investigations to better understand the species diversity and numbers of birds occurring inside the plantation forest, rather than just in adjacent reserve areas. Working with Landcare Research in southern Kaingaroa forest, researchers have found that while the exotic forest supports a wide range of bird species there are differences with native forests. The exotic forest has lower numbers of some

species than do native forests. Such species include nectar feeders (such as bellbird and tui), fruit feeders (eg kereru), and hole nesters (such as rifleman and morepork). However some native insectivorous species (eg whitehead and robin) are found in higher densities in some exotic forest areas than in native forest.



Fletcher Challenge Forests is continuing to investigate issues around forest bird numbers and distribution to better understand factors influencing their populations.

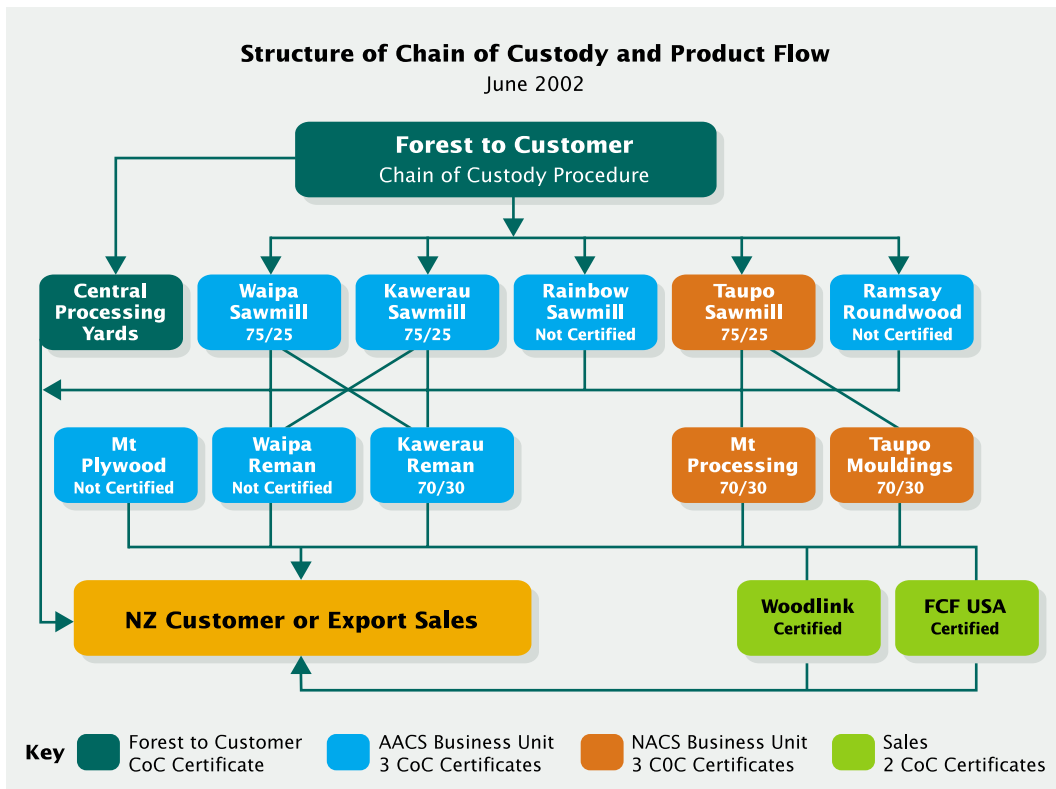
Controlling our possums

Possums are not only a significant pest in New Zealand native forests but can also cause economic damage to radiata pine. Fletcher Challenge Forests, like the Department of Conservation and other agencies attempting to control possum numbers, currently relies on toxic poisons but we are keen to explore non-toxic alternatives.

We recently enlisted the technical expertise of Landcare Research to trial the cost-effectiveness of a kill-trap-based control system for maintaining possums at low density. The trial involved a comparison of Warrior® kill-traps with poison placed at bait-stations in two different age classes of trees (4-5 years and 11-12 years). After six weeks, the compartments were monitored to determine the percentage catch of the surviving possum population.

Neither treatment type was successful in achieving the desired residual possum population, perhaps largely due to the high initial possum densities but also because of a substantial level of interference by rats. Landcare Research has advised that large scale aerial or ground based operations will continue to be the most effective techniques to achieve an initial knockdown of possum numbers. If maintenance control is required, the use of Warrior® traps would be worth further trialling – if the problem of interference by rats can be resolved.





Maintaining forest certification

Forest certification is a process by which the environmental, social and economic management of a forest is measured and verified by a credible third party. Fletcher Challenge Forests obtained forest stewardship certification, an internationally recognised certification system available for forests, in October 2000.



This particular certification system requires Fletcher Challenge Forests to have 'chain-of-custody' procedures in place, so that a customer can be confident that the product they receive has come from a certified well-managed source.

Worldwide, many major institutions, builders, retailers and architects source by preference 'certified forest products' for their buildings, stores and designs, particularly in the US and Asian markets.

Each link in the Fletcher Challenge Forests supply chain has a valid 'chain of custody' certificate. The management of these certificates is audited both externally and internally on an annual basis.

Fletcher Challenge Forests has obtained four new 'chain of custody' certificates in the 2001/02 financial year, and undergone eleven external audits. In all instances, we are pleased to report that certification has been maintained.



100% committed to...

MONITORING THE EFFECTS OF OUR FOREST OPERATIONS ON THE ENVIRONMENT

Understanding the effects of our clear cut areas

As part of our progression under Forest Stewardship Council (FSC) certification, Fletcher Challenge Forests has developed a draft policy relating to clear cut size. The policy covers our approach to planning the size of our clear cut (or harvested) areas in consideration of economic and environmental factors, including visual, ecological, biodiversity, landscape and water/soil values.

Under this policy, we are carrying out various research programmes to provide the necessary data to use in the planning process. Currently, there is a scarcity of information relating to the effects of clear cut size on biodiversity/ecological values for

New Zealand. In the past year, our research programmes have included projects on bat habitat, kiwi, bird populations and biodiversity values of old growth Douglas fir and Radiata pine stands.

Understanding the effects of our harvesting on stream habitat

In order to find out if our harvesting activities have a significant impact on aquatic habitat, we have contracted NIWA (National Institute of Water & Atmospheric Research Ltd) to monitor two aquatic communities. The first is in a northern Kaingaroa catchment (Pokairoa and Mangaharakeke Streams) and the second a coastal forest catchment emptying into the Ohiwa Harbour (Wainui Stream in Taneatua Forest).



Started in the mid-1990s, this ongoing monitoring relies on a combination of stream habitat assessment and monitoring of the macro invertebrate communities (eg insects, snails, shrimps and freshwater crayfish) on the streambeds.

The Pokairoa and Mangaharakeke streams flow through pumice soils and tend to have highly mobile substrates. The results of monitoring have been mixed, with changes to invertebrate communities being detected in some streams, while others did not appear to be influenced by harvesting activities. In general, the monitoring indicates that harvesting can have variable, and in some cases short-term impacts on stream communities, but that these rapidly recover.

Relative to those in northern Kaingaroa, streams in the Wainui catchment are short and flow from steep forested land across lowland pastoral areas and into the Ohiwa Harbour. They support diverse populations of native fish and the Wainui stream is popular for whitebaiting. NIWA research found that the effects of harvesting on benthic invertebrates at Wainui monitoring sites ranged from 'negligible' to 'slight-moderate' to 'slight and short-term'. The latter were followed by rapid recovery and NIWA therefore concluded that any harvesting impacts on stream invertebrate community health were short-lived.





OUR ENVIRONMENTAL PERFORMANCE RECORD – FORESTRY

A critical part of our environmental performance is satisfying the statutory requirements such as the Resource Management Act, the Historic Places Act and the Conservation Act.

We have not been served any notices for offences under the Resource Management Act this year.

Our internal environmental audit programme monitors compliance with resource consents, compliance with environmental management procedures and identifies areas of risk to the environment and steps to mitigate these risks.

We commissioned two external audits in June of this year. The first (a requirement under the 10-year resource consent issued by Environment BOP) examined recently completed harvesting operations within Taneatua and Stanley Forests. The second examined operations within the Northern Boundary area of Kaingaroa Forest, Whirinaki, Mamaku and Herepuru Forests.

The audits highlighted several areas where we are achieving good performance and also recommended some corrective actions that we will soon implement and report on in next year's annual report.

In addition to our own monitoring and auditing, the Regional Councils (primarily Environment BOP and Environment Waikato) also carry out regular monitoring inspections to check that we are complying with the conditions of our numerous resource consents.

The most recent Environment BOP report (covering January 2001–June 2002) outlined the 58 inspections associated with the 21 active resource consents Fletcher Challenge Forests had during this time. The council includes an assessment of the overall level of compliance by the consent holder, and noted we had achieved a 'High' level of compliance for 10 consents and a 'Moderate' level for 11 consents.





ENVIRONMENT MANUFACTURING



100% committed to...

MANAGING OUR IMPACT ON THE ENVIRONMENT

With a large manufacturing operation as core to our business, there is no escaping the fact that we are going to use a sizeable amount of natural resources. Owing to the standard operating practices at the time there has also been some historic contamination at several of our sites.

As part of our environmental management policy, we are committed to reversing or stopping environmental damage, whether that be through greater efficiency, a reduction in environmental risks or the cleaning up of our soils and waterways.

Preserving our natural energy resources

Each year, Fletcher Challenge Forests uses some \$3-4 million of electricity from the national grid and \$4.5 million in natural gas costs. The particularly turbulent electricity prices last year resulted in us spending an extra \$900,000 on electricity over the months of July and August 2001 alone.

We have now set in place a number of projects to become more energy efficient. Waipa Sawmill began running its 3.5 megawatt generator to its maximum capacity to curb any importation of electricity from the grid and cost-saving initiatives are being developed at the Rainbow, Ramsey Roundwood and Taupo sites – some of these as simple as turning off equipment and lights when not in use.

In addition to the focus at site level, Fletcher Challenge Forests has joined the 'Major Electricity Users Group', comprising approximately 20 New Zealand companies with a combined use of over 32% of New Zealand's power demand. This group is actively involved in the development, review and comment on proposed electricity policy, aiming to "ensure the continuing availability of electricity services, at the lowest cost to the economy as a whole, consistent with sustainable development". Within this framework, the group seeks to ensure competitive electricity prices and security of supply.

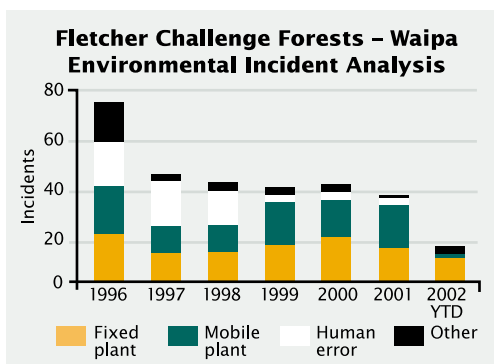
There is no doubt that energy (particularly natural gas and electricity supply) is set to become a larger component of the cost of manufactured wood products, but by smarter management and better preparation and understanding, we hope to minimise the impact on our business.

Certifying our environmental management system

The Waipa Sawmill holds a Certificate of Registration to ISO 14001 for its Environmental Management System. This system (EMS) ensures that we manage the environment in a manner that will reduce environmental risk and satisfy an independent environmental certification team (SGS International Certification Services).

Every three years, the EMS is subjected to a full compliance audit and the Waipa Sawmill completed its second triennial compliance audit in June 2002. As with the first, it was free of any corrective action with full compliance within the ISO 14001 standard being met.

Information on incidents, internal audits and non-conformances at the sawmill is collected regularly and the resulting actions support the commitment of continual improvement. A good example of environmental incident analysis is detailed below, showing that through a process of internal environmental awareness training, Waipa has reduced the number of incidents resulting from human error to its lowest level in the six-year period of certification.

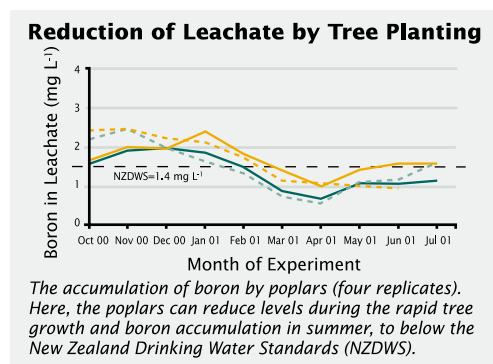


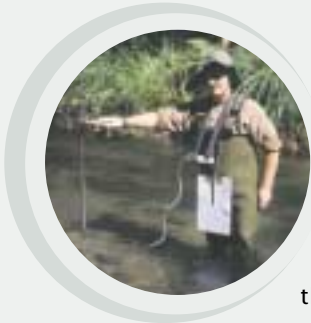
Reconditioning our land

In early 2000, Fletcher Challenge Forests entered into an exciting partnership with HortResearch to bioremediate a 4.3 hectare woodwaste landfill at Kopu, near Thames. The landfill, closed in the early 1990s, had continued to discharge contaminated leachate until a pumping scheme was developed to pump from a collection pond and irrigate back onto the landfill.

HortResearch planted 8000 poplar, willow and eucalyptus trees on the site over a one year period, with the purpose of the tree planting being to reduce the amount of leachate being produced, enhance break-down of the woodwaste and remediate the site through the uptake of contaminants from treated wood material.

Although some believed the trees would not grow and that if they did, they would do little to remediate the site, we are pleased to report that due to HortResearch’s careful attention, the trees are growing well and beginning to have a substantial impact on leachate production. In fact, laboratory trials have shown that the poplars are capable of reducing the concentration of boron in the leachate almost down to the New Zealand drinking water standard.





The trees have also already begun to create a layer of humus over the surface of the site (complete with the presence of worms) and this will assist the breakdown of waste material and oxidation of contaminants such as pentachlorophenol (PCP). Trial inoculations of the site with white-rot fungi (effective in the breakdown of PCP) have also shown it can survive and will not adversely affect tree growth.

While we still have a long way to go, things are looking very positive and the maturing trees are promising to provide effective control of the site leachate and lead to the long-term rehabilitation of the landfill.

Cleaning up our soil

In November 2000, we committed resources to the assessment and clean-up of residual PCP (pentachlorophenol) soil contamination at the Kawerau processing site. The operation of a former treatment plant (established in 1956, closed in 1990 and following acceptable treatment practice at the time in its use of PCP) had left the area with some residual PCP soil contamination.

Soil samples (collected from the site of the old treatment plant and sawmill down to a depth of 500mm) gave a very accurate picture of the extent and total volume of contaminated material and a carefully targeted clean-up programme began.

All of the contaminated material has now been removed and securely contained for appropriate disposal, and the area has been backfilled and compacted with clean

material, complying with health and environmental guidelines for 'Selected Timber Treatment Chemicals'.

Keeping our waterways clean

As a result of soil and groundwater contamination identified in 1992 at the Waipa Processing site, a groundwater interception and treatment system was commissioned at Waipa in 1994. The Rayox plant uses ultraviolet light to treat groundwater intercepted at the site boundary before this water would otherwise enter the Waipa stream. It has been very successful, reducing PCP in groundwater to undetectable levels and ensuring that historic contamination persisting at the site no longer poses a threat to local waterways.





100% committed to...

MONITORING THE EFFECTS OF HISTORICAL MANUFACTURING OPERATIONS ON THE ENVIRONMENT

Fletcher Challenge Forests is committed to understanding the extent of residual contamination still remaining in soils and groundwater. We began a series of site investigations at Waipa in early 2000 to better understand site contamination and build an accurate picture of those areas where contamination exceeded acceptable industry guidelines, as well as to compare existing contamination levels with those reported in a 1992 study.

In addition to an extensive drilling programme, the Waipa study also used electromagnetic and ground penetrating radar technology to search for any large buried objects such as drums (none were found) and to produce a map of any subsurface anomalies that could be further investigated by exploratory drilling.

The study identified areas where PCP contamination exceeded industry standards and, predictably, these were in the vicinity of historic treatment plants on the site and small in area relative to the size of the Waipa site. In addition to the PCP contamination, one location was identified where arsenic exceeded the industry guidelines and some areas where oil has contaminated groundwater were identified.

Fletcher Challenge Forests has commenced a project to recover the oil from groundwater and will continue to investigate options for the treatment of PCP contaminated soils. Although the effective functioning of the Rayox plant means these areas do not pose an immediate threat to the environment, there are currently limited options for the disposal of PCP-contaminated materials in New Zealand. It also goes without saying that we use state-of-the-art treatment practices on-site to ensure the protection of our people and the environment.





OUR ENVIRONMENTAL PERFORMANCE RECORD – MANUFACTURING

We take our legal obligations very seriously and are pleased to report that Fletcher Challenge Forests has not incurred any financial penalties for non-compliance with environmental legislation, with all of our manufacturing operations having been well managed in accordance with Resource Management Act and other environmental requirements.

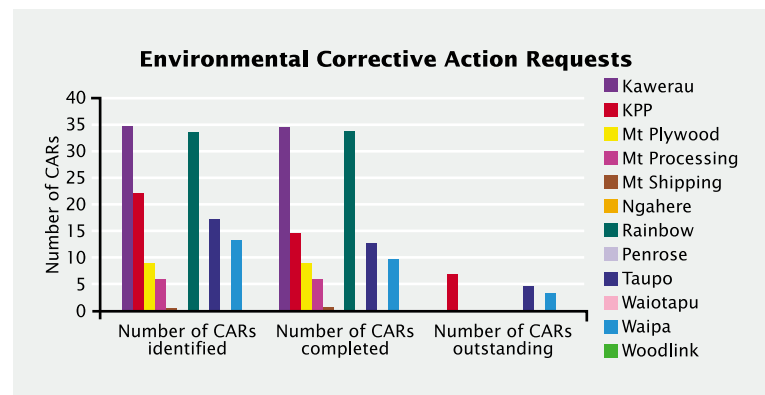
An abatement notice was, however, issued by the District Council to the Mount Maunganui Processing Plant relating to noise – the plant was considered to be exceeding permitted noise levels on the boundary. Fletcher Challenge Forests has filed an appeal with the Environment Court with respect to the notice. The outcome of the notice notwithstanding, environmental performance at processing sites has been excellent.

Environmental audit programme

Fletcher Challenge Forests has an internal environmental audit programme to monitor:

- Compliance with resource consents
- Compliance with environmental management procedures
- Areas of risk to the environment and identify steps to mitigate these risks

All processing sites underwent an internal audit in November/December 2001 and 137 corrective actions were identified. 89% of these had been closed out by the end of June 2002 and 15 were partially completed.





COMMUNITY



**100% committed to...
WORKING WITHIN THE COMMUNITY**

As a sizeable New Zealand company, Fletcher Challenge Forests interacts with the local community in more ways than one. Not only are our employees an intrinsic part of their own communities and our forests widely open to the general public, but our operations are often seen to have an influence on various groups within the community.

We recognise our social obligations and are committed to working closely with the community, through recreation, education, rescue support, training, entertainment and ongoing communications.

Fletcher Challenge Forests Rescue Helicopter

As naming rights sponsors to the regional rescue helicopter, our support helps to keep the helicopter fully equipped and maintained, with sophisticated communication and navigational systems, life support, fire fighting and field retrieval equipment. The helicopter provides air ambulance services and assists emergency services throughout the BOP and sometimes beyond.

(downhill and cross-country), the EcoFest Opening Ceremony and the New Zealand Duathlon Championships. The forest is visited for general recreation purposes such as walking, running, mountain biking, horse trekking, orienteering and team-building

Fletcher Challenge Forests Visitor Centre

A great number of events take place in the Redwoods and Whakarewarewa Forest, including team building, mountain biking and dog racing and school cross-country running. Fletcher Challenge Forests has also played host to 'Jog a Dog', community fun runs, the International Two-day Walk, the National Mountain Bike Championships





activities, with approximately 200,000 people a year using the forest in one way or another (not including those on tour buses!)

Fletcher Challenge Forests manages the Tokorangi triangle, more commonly known as the Redwoods, on behalf of the Rotorua District Council as a community investment. We will continue with this management for another year.

Fletcher Challenge Forests Marathon

The 38th annual Rotorua Marathon, now known as the Fletcher Challenge Forests Marathon, was held in April, with the 42-kilometre event attracting a strong field of 1700 runners and walkers. This sponsorship not only raises the Fletcher Challenge Forests profile in the community but also supports an event that draws hundreds of people into Rotorua, benefiting the local economy.

Cateye Moonride

Mountainbiking is becoming an extremely popular sport and the Fletcher Challenge Forests managed mountain-bike trails in the Whakarewarewa Forest played host to the new look Cateye Moonride on May 10-11. This year, in addition to the 12-hour race, a new 24-hour race was introduced and sponsored by Fletcher Challenge Forests.



Fletcher Challenge Forests Relay

This annual event, open to both walkers and runners, is held in September at the Redwoods, Whakarewarewa Forest in Rotorua. It features both team and individual categories, as well as a special youth section. Fletcher Challenge Forests has supported the relay for a number of years, in partnership with the Lake City Athletic Club (organisers of the event and a principal user group of the Redwoods).



Rotorua Business Awards

A significant annual event on the Rotorua business calendar, Fletcher Challenge Forests was proud to help recognise and celebrate the achievements of local businesses.

Rotorua Careers Expo

Over the last few years Fletcher Challenge Forests has been the major sponsor of the Rotorua Careers Expo. Held from May 6-8, the Expo (made up of various universities, polytechnics, training institutions and providers, and education and employment-related agencies) was visited by over 6000 students, parents and people seeking a change of employment or a future career path.

Forest Industries National Training Awards

These awards were held in Rotorua in April with Fletcher Challenge Forests sponsoring the National Trainee of the Year – Silviculture Award.

Kawerau Christmas in the Park

This is a family day of free entertainment, organised by the Kawerau Christmas in the Park Trust and attracting not only members of the Kawerau community but also those from the wider Bay of Plenty. It is a great

way for Fletcher Challenge Forests to promote the Christmas spirit and unite the wider community.

Conservation Week

Fletcher Challenge Forests ran organised glowworm tours and daytime educational walks through the Redwoods as part of the Conservation Week programme in August.

The Fletcher Tuatara New Entrant Adventure Packs

Launched in 2001, these packs are distributed (in association with the Rotorua Public Library) to all primary schools in the Rotorua area. Children receive a Fletcher Tuatara Library card, a free book and some other goodies to encourage them to read. The programme, which Fletcher Challenge Forests helped establish, aims to increase literacy in the community.



Fletcher Challenge Forests also supported a number of initiatives including the 2002 Children's Film Festival for disadvantaged children, Whirinaki School's sports travel, Kaingaroa Forest School's weekly newsletter, Te Ranga School's Possum Hunt and the Rotorua Community Watch Programme.



100% committed to... MINIMISING SOCIAL IMPACT

Social impact assessment is the process of examining how a proposed action might affect individuals, groups and communities and to improve decision-making by avoiding unnecessary costs and enhancing potential benefits.

By understanding that each community has a unique mixture of resources, understanding and values, and incorporating proactive stakeholder communications into the planning process, Fletcher Challenge Forests hopes to reduce impacts and increase benefits to the community from its operations. A two-day training session was held for operational managers within Fletcher Challenge Forests in May 2002.

PricewaterhouseCoopers
 PricewaterhouseCoopers Tower
 188 Quay Street
 Level 22 Reception
 Level 8 Mail Centre
 Private Bag 92162
 Auckland
 New Zealand
 Telephone +64 9 355 8000
 Facsimile +64 9 355 8261

Review Statement

To the members of Fletcher Challenge Forests

We have reviewed the information contained in the Health, Safety and Environmental report for the year ended 30 June 2002. Our review was made in accordance with the Review Engagement Standards issued by the Institute of Chartered Accountants of New Zealand. In conducting this review, reference was also made to the Guidance on Verification, contained in the Global Reporting Initiative, issued by the Coalition of the Environmentally Responsible Economies (“CERES”).

Reviewer’s Responsibilities

We have been engaged to carry out a review engagement to verify the information contained in the Health, Safety and Environmental Report for the year ended 30 June 2002.

Basis of Review

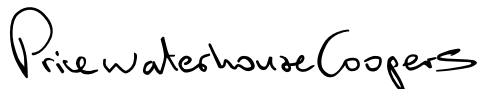
The review consisted of enquiry, analysis and discussion of information provided to us by Fletcher Challenge Forests. Our review included visits to selected Company locations where we:

- conducted interviews with management and staff;
- obtained information regarding the basis of preparation of the information; and
- performed reviews of corporate records and other relevant source documentation.

A review does not constitute an audit and consequently we do not express an audit opinion.

Review Findings

Based on our review, nothing has come to our attention that causes us to believe that the information contained in the accompanying Health, Safety and Environmental Report has not been properly compiled and fairly presented, in all material respects.



Chartered Accountants
 Auckland, New Zealand
 16 December 2002



**FLETCHER CHALLENGE
FORESTS**

