

Fletcher Challenge Forests Limited
HSE Report 2003

HSE

Health, Safety and Environment 2003

2 Letter from the
Joint Chief Executives

3 Our Health, Safety and
Environmental Policy

Health and Safety

- 5 Safety Performance – Processing
- 6 Fletcher Challenge Forests
Safety Awards 2003
- 7 Employee Educational Fund
- 7 Employee Assistance Programme
- 7 Employee Welfare Fund
- 8 Fitness Challenge
- 8 ACC Partnership Programme 2002
- 9 OSH Audit
- 9 Safety Performance – Forestry
- 10 “HarvestSafe” Initiative
- 10 Road Safety Policy
- 11 Supply and Trading

The Environment

- 13 Phytoremediation at Kopu
 - 13 Our Environmental Performance
Record – Manufacturing
 - 14 Environmental Compliance –
Forests
 - 14 Manufacturing Site
Contamination Assessments
 - 15 Forest Stewardship Council
Certification – Update
 - 16 Wildlife Projects
- ### Community Investments
- 18 Educational
 - 18 Sports and Recreation
 - 19 Cultural and Social
- 20 Auditor’s Report



HIGHLIGHTS

- Fletcher Challenge Forests processing sites halved their Lost Time Injury Frequency rate over the last twelve months to reach an all-time low.
- Successful FSC re-certification confirms our excellence as managers of environmentally sustainable forests.
- Safety performance at our processing sites has been exceptional, with Taupo Sawmill and Ramsey Roundwood both achieving zero lost time injuries.
- No environmental resource consent non-compliance notices issued by regulatory authorities during the year.
- Supply and Trading's LTIFR cut by almost two thirds.
- FCF retained tertiary level (highest) compliance status for the ACC Partnership Programme.
- The FCF "Fitness Challenge" half-marathon and eleven km walk/run was well supported by employees and contractors.

Introduction

Welcome to the 2003 Fletcher Challenge Forests Health, Safety and Environment Annual Report. This is the fifth such report we have produced, and the 2002-2003 year has seen excellent progress in health and safety performance. We have also maintained the outstanding environmental record of previous years.

During the year we have completed a number of health and safety initiatives that have been “firsts” for the Company, and one of the most successful of these was the Fletcher Challenge Forests Health and Safety Awards night. This was an opportunity to showcase and reward exceptional safety performance by both teams and individuals. It was also an opportunity for the Chairman of the Fletcher Challenge Forests Board, and other senior managers, to personally reinforce the Company’s commitment to safety.

Another company “first” during 2003 was the Fitness Challenge. This highly successful event, sponsored in part by the Employee Welfare Fund, promoted health and wellbeing on a company-wide basis. It was great to see employees, contractors and their families enjoying both the tremendous build-up to the event and the great day itself.

In terms of safety performance, it is very pleasing to see that we finished the year with a Lost Time Injury Frequency Rate (LTIFR) of 6.5, down from 8.1 at the beginning of the year. Impressively, our processing sites have halved their LTIFR from 6.6 to 3.3 over the last 12 months. The commitment of our employees and contractors to safety is also recognised by the retention of our tertiary level status for the ACC Partnership Programme.

It was also a very successful year in terms of environmental performance. We maintained our Forest Stewardship Council Certification, demonstrating that our forests continue to be well managed in terms of environmental, social and economic performance criteria. Environmental performance at our processing sites has also been excellent. We enjoy an excellent ongoing relationship with Regional and District Councils, which has been most constructive and helpful for all our operations.

In summary, the 2002-2003 year has been an excellent one in terms of health, safety and environmental performance. We hope you will enjoy reading some of the highlights in this year’s Annual Report.

Ian Boyd and John Dell
Joint Chief Executive Officers



Health, Safety and Environmental Policy

Our Commitment	Fletcher Challenge Forests is committed to maintaining a safe and healthy workplace and a high standard of environmental performance throughout its processing and planted forest activities. 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: <ul style="list-style-type: none"> • Personal Accountability • Commitment • Continuous Performance Improvement • Teamwork
Operations	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: <ul style="list-style-type: none"> • 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.

Health and Safety



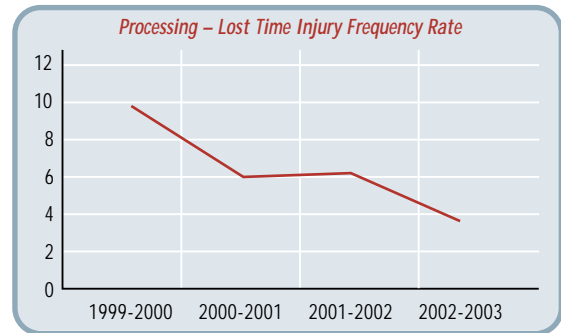
Safety performance at our processing sites during 2002-2003 has been excellent, with lost time injury frequency rates reaching an all-time low

SAFETY PERFORMANCE – PROCESSING

At our processing sites, employees and contractors have made significant progress in reducing Lost Time Injuries (LTIs) and improving return-to-work times after accidents have occurred.

- The Processing LTI frequency rate of 3.3 is the lowest yet achieved.
- LTIs for processing sites reduced from 20 to 10, year on year.
- Taupo Sawmill and Ramsey Roundwood achieved zero Lost Time Injuries during the year.

This outstanding outcome is a result of an intense focus on safety across the entire Company, and exceptional team efforts at our processing sites.



There were no prosecutions or prohibition notices issued to any of our sites by Occupational Safety and Health this year. In summary, safety performance at our processing sites has been exceptional – the challenge for the coming year is to maintain this focus and performance.





FLETCHER CHALLENGE FORESTS SAFETY AWARDS 2003

On 17 September 2002 the Health, Safety and Environment team hosted the inaugural Fletcher Challenge Forests Safety Awards, held at the Rotorua Convention Centre. The ceremony was attended by 465 people made up of staff and invited guests representing all aspects of our business, from silviculture to processing. Keynote addresses were given by Sir Dryden Spring, Chairman of the Fletcher Challenge Forests Board of Directors, and Ian Boyd, Joint Chief Executive Officer.



A feature of the night was the appearance of Sean Fitzpatrick, retired All Black captain. Sean spoke about his career, and the importance of working together and looking after your mates. He then talked about his family and the central part they play in his life.



The theme for the Safety Awards night was *families*. At Fletcher Challenge Forests, safety isn't just about statistics and systems, but about making sure that people go home safely to their families and loved ones at the end of the workday, and that people live full and balanced lives.



Taupo Sawmill was recognised as Fletcher Challenge Forests' *Site with the Best Safety Performance*. Other award categories acknowledged new initiatives, champions, and overall excellence in safety performance by both crews and sites.

The Fletcher Challenge Forests inaugural Safety Awards was a high profile event, and clearly demonstrated to staff and stakeholders alike our commitment to health and safety. The event was an overwhelming success, and has set the stage for Health and Safety within Fletcher Challenge Forests for 2003/2004.





EMPLOYEE EDUCATIONAL FUND

The objectives of the Fletcher Challenge Forests Employee Educational Fund are benevolent, philanthropic and cultural. The EEF recognises, encourages and financially supports vocational learning, and the sharing of learning, among Fletcher Challenge Forests' employees and their families. By providing educational grants to employees and their dependants in this way, the EEF works to strengthen the relationship between the Company and its employees.

The Employee Educational Fund operates independently of Fletcher Challenge Forests. It is proving to be an exciting and innovative way of developing the people who are responsible for the Company's reputation today, and encouraging the people who will shape the Company tomorrow.

EMPLOYEE ASSISTANCE PROGRAMME (EAP)

The Employee Assistance Programme continues to be funded and supported by the Employee Welfare Fund. Around 4% of our employees used the service over the last twelve months, and these came from all business units and sites.

Issues dealt with by the EAP in the last year included:

- Relationships
- Family
- Grief
- Drugs
- Work performance
- Work stress

The EAP will play a crucial role in supporting the new amendments to the Health and Safety in Employment Act, and in assisting our employees to manage stressors in the workplace and in their personal life.



EMPLOYEE WELFARE FUND

Fletcher Challenge Forests views the existence of a supportive working environment for its employees as being vital to business success. To this end, an important initiative has been the provision of the Fletcher Challenge Forests Employee Welfare Fund (EWF).

The EWF is available to help employees and their families in the event of death, disability or financial hardship resulting from unexpected medical misfortune.

- The Death Benefit minimises any immediate financial worries for an employee's dependent family members in the event of the employee's death.
- The Disability Benefit provides financial assistance to an employee who becomes so severely disabled through accident or illness that they are deemed by a medical expert to be incapable of undertaking work of any kind, at any time in the future.
- The Hardship Benefit assists employees who are suffering financial hardship as a result of unexpected medical misfortune that has occurred either to themselves or a dependent family member.



FITNESS CHALLENGE

In October 2002 Fletcher Challenge Forests issued a company-wide challenge – we invited our people to commit to running or walking a half marathon or quarter marathon in six months' time, in conjunction with the planned Xterra triathlon. The challenge particularly targeted those who had never done anything like it before. The Company wanted people to commit themselves to a goal that was outside their "comfort zone", and then to experience the successful achievement of that goal. We wanted to promote lasting improvements in health and lifestyle.

The concept was unveiled with introductory seminars at all of the sites, and although initially it met with reactions ranging from scepticism, excitement and trepidation, many of our people rose to the challenge. A comprehensive programme then moved into action, aimed at getting everyone safely across the finish line. The Company organised a fitness assessment for each registrant, and people were given a professionally developed training programme tailored to their individual fitness level.

The Company also organised educational seminars on training, nutrition and hydration, and preparation for race day. An 0800 support line operated for the duration of the challenge, people received a weekly newsletter containing

encouraging tips and advice, and bulletins were placed on noticeboards at the sites.

Race day, 14 April 2003, was an outstanding success. Distinguished in their red and black shirts, 522 FCF people gathered at the Blue Lake for their half (or quarter) marathon. The course encircled the beautiful Blue Lake and Green Lake, wound through the Whakarewarewa Forest, and finished at the Blue Lake car park. Apart from one person who unfortunately sustained a sprained ankle, everyone successfully completed the course.

After the event a survey revealed that 93% of respondents intended to continue an exercise programme. 41% stated that they had made other positive lifestyle changes as a consequence of the Challenge, and 68% claimed to have higher energy levels.

The Fletcher Challenge Forests Fitness Challenge made a positive impact on the lives of the people who took part, and was an outstanding project for the Company's Health and Safety team for 2003.

ACC PARTNERSHIP PROGRAMME 2002

The ACC Partnership audit was conducted by PricewaterhouseCoopers in November 2002. The two sites chosen for the audit were Ngahere House (for the second consecutive year), and the Taupo sawmill and mouldings plant.

Both sites were well prepared with documentation to meet the nine criteria. The auditors were impressed with the employee and management focus groups, and with their knowledge of the Health, Safety and Employment Act requirements, the ACC Partnership Programme, the identity of our third party provider, and the correct management of work injuries.



Last year Fletcher Challenge Forests was elevated to tertiary level in the Partnership Programme. This status indicates that we have progressed beyond minimum and intermediate compliance with ACC requirements to the highest possible level. The audit this year included new criteria reflecting changes to the Injury Prevention and Rehabilitation Act 2001, and it has taken some time and effort to implement the new requirements. The ACC Partnership team was satisfied with our plan forward, and Fletcher Challenge Forests has been awarded a continued tertiary level.

OSH AUDIT

In July 2002, the Rotorua branch of Occupational Safety and Health (OSH) conducted audits at our processing plants - Taupo, Kawerau and Rainbow Mountain - spending a day at each site. The audit consisted of reviewing training for employees, isolation procedures, a check of guarding and nip points (exposed areas where there might be a possibility of someone being caught by machinery), timber stacking and lighting.

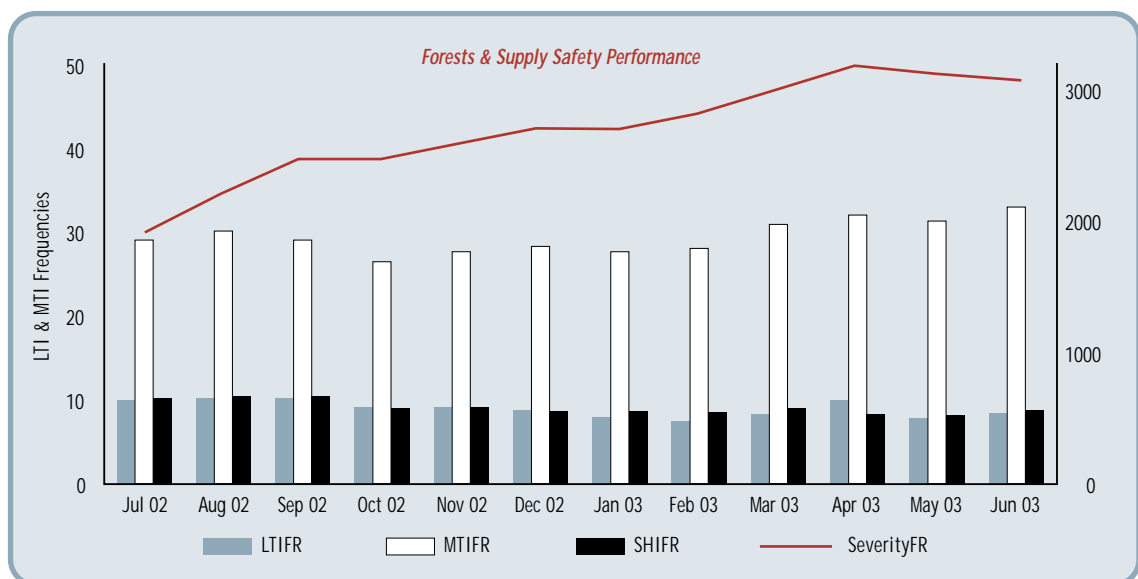
OSH was impressed with the training we provide to our employees, and was satisfied with the isolation procedures in place. A few additional nip points and places where there was inadequate guarding were identified.

SAFETY PERFORMANCE – FORESTRY

Forestry and harvesting operations in New Zealand have traditionally been a dangerous area in which to work. The forest is an uncontrolled environment where contractors are undertaking high-risk activities in difficult terrain. Accidents, when they do happen, are often very serious.

Fletcher Challenge Forests' injury prevention initiatives this year have focused on training and operational audits for harvesting crews, and finding new ways to identify and reward safe behaviour. The end result of these initiatives has been a significant improvement in the Lost Time Injury Frequency Rate (LTIFR) for both of our harvesting business units. Log Manufacturing reduced its rate from 11.3 to 8.8, and even more spectacular was the Supply and Trading improvement, which took the LTIFR from 22.7 down to 11.1. However, the dramatic reduction in the number of LTIs was offset by the severity of accidents, and our challenge for the coming year is to achieve a similar improvement in this area.

Legal compliance by Fletcher Challenge Forests was excellent, and there were no prosecutions by Occupational Safety and Health during the year.





"HARVESTSAFE" INITIATIVE

During the year a working party, made up of Fletcher Challenge Forests staff and including contractor representation, was established to examine the health and safety systems used in the Company's harvesting operations, and to develop initiatives to improve safety performance. The HarvestSafe working party's analysis confirmed that the current system has a large number of positive features. The level of assessment and audit is very high, and additional staff dedicated to health and safety have been employed. Each crew has a nominated "safety champion", and these meet regularly for peer support and training.

During the year the HarvestSafe working party met with key health and safety personnel in the New Zealand harvesting industry to compare safety systems, and to determine if Fletcher Challenge Forests could implement any of their initiatives. The exchange of ideas proved beneficial, and it was found that our Company's log manufacturing safety system compares very favourably with those of the peer group.

As a result of the collaboration, a course for crew managers and foremen was developed and is being implemented. Refresher training workshops have also been arranged for those undertaking high-risk tasks, and other ideas are being considered.

Breakfast Safety Meetings, October 2002

After the success of last year's Log Manufacturing breakfast meetings it was decided to run more of these sessions in October 2002. Six consecutive breakfast meetings were run using Creative Communications, a Rotorua based drama group, with a good attendance by the contractors.

The drama group added impact to the meetings. Different scenarios were enacted to show the effects of accidents on families and work mates, and to emphasise the responsibility of the individual in promoting and maintaining a safety-conscious work ethic. Participants found the drama powerful and easy to relate to, and it reinforced the message of safety in the forest.

While it is difficult to quantify the long-term benefits, we believe that the sessions did help raise safety awareness among our contractors, and have contributed to the improved safety performance of our harvesting operations.

ROAD SAFETY POLICY

The introduction of the Fletcher Challenge Forests Road Safety Policy has been a resounding success. After an initial surge in infringements being issued, compliance to in-forest rules has significantly improved.

The last 12 months have seen the development of an information database, which has enabled the administration team to analyse crash data, identify



accident black spots, and adjust speed restrictions. An appeals committee has been formed, which has reviewed six infringements to date. The outcomes of the appeals have been varied, but the response from those attending has been positive.

There is full acceptance of the Policy by forest users, and people are now very aware of the implications should a serious breach occur.



SUPPLY AND TRADING

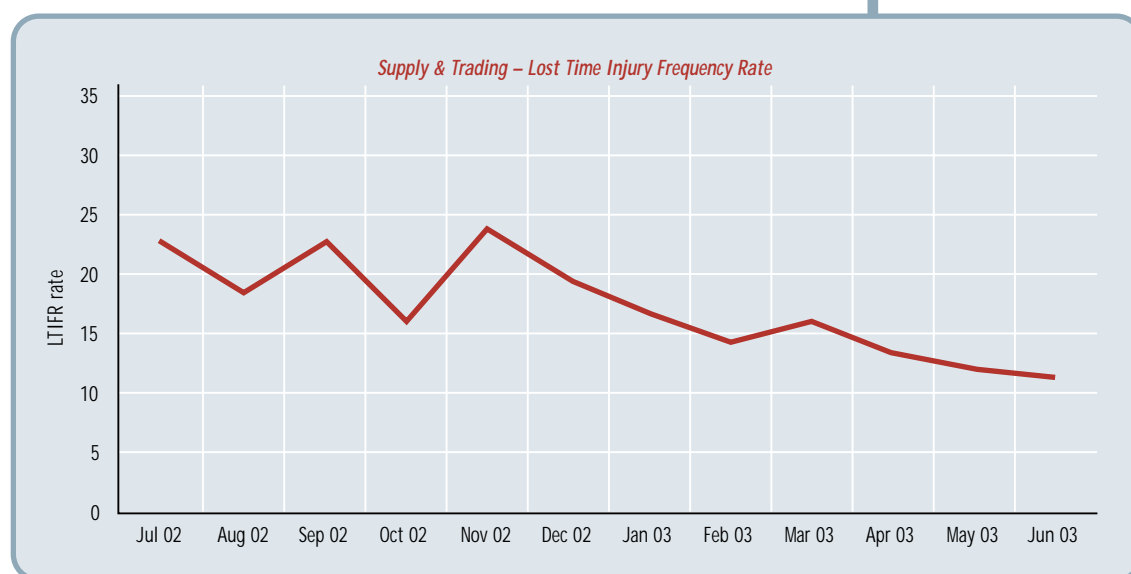
This year the Supply and Trading team has responded well to the challenge of reducing the business unit's Lost Time Injury Frequency Rate (LTIFR). The focus of the entire Supply and Trading team, from senior management through to operational staff, has been on safety. The commitment has been absolute, and the result has been an excellent year's performance.



The figures speak for themselves. In July 2002 the LTIFR YTD was 22.7, and as at June 2003 it had dropped to 11.1.



The Supply and Trading investment of time and money in training both crews and staff, and the resultant improvement in awareness and communication on the part of the contractors, have all contributed to this fine outcome.



The Environment

Fletcher Challenge Forests' commitment to the high standards set by the Forest Stewardship Council has ensured that the Company has once again received certification acknowledging the care of its forest estate



PHYTOREMEDIATION AT KOPU – THREE YEARS ON

Three years ago, Fletcher Challenge Forests and HortResearch undertook a joint project to trial a new way of dealing with contaminated sites. Whereas traditional methods merely “cap” a contaminated site, a new technique known as phytoremediation (remediation using plant-based technology) could actually assist with the breakdown and removal of contaminants.

The project centred on a wood waste landfill at Kopu, near Thames, which had been contaminated as a result of historic operations. The site was planted with a range of poplar and willow species, and the most successful of these were used for subsequent plantings. Clover was also established as a ground cover to enhance tree growth through nitrogen fixation, and to assist with soil formation and the breakdown of wood waste.

HortResearch has shown that willows grown in laboratory conditions are capable of reducing the boron levels in leachate to below those required for New Zealand drinking water standards, and the phytoremediation project is capitalising on this ability of the trees to remove contaminants. Leachate forming at the base of the wood waste pile is captured and directed back onto the landfill to irrigate the growing trees, and the volume of this leachate should be progressively reduced by transpiration. The tree roots, now reaching several metres into the landfill, also aerate the wood waste and assist in breaking down the pile.

It was a challenge in the early months to get the trees to thrive in the wood waste environment, given its low nitrogen content and deficiency of soil. HortResearch closely monitored the trees, and careful applications of fertiliser were used to encourage growth. Weather conditions at the site also presented a challenge. The landfill is located in a high rainfall area, and the volume of water falling on the site has at times waterlogged the trees and tested the efficiency of the pumping system.

Willows regrow vigorously when cut back (coppiced), and it is now planned to coppice the trees each year. The leaf material, along with the contaminants accumulated therein, will be disposed of in an appropriate way. As well as establishing a coppicing regime, the coming year will see the final planting of remaining bare patches, aerial application of fertiliser, and further monitoring of contaminant uptake.

The phytoremediation of the Kopu landfill is a long-term project, and while the ultimate future of the site will depend on the success of the undertaking, one option being considered is to interplant the willows with native species to eventually create an indigenous reserve. The lessons learnt at Kopu will be valuable both within Fletcher Challenge Forests, and in the wider industry.

OUR ENVIRONMENTAL PERFORMANCE RECORD – MANUFACTURING

We take environmental matters very seriously, and always endeavour to be good guardians of the environment at our manufacturing sites. All sites, where required, have environmental resource consents issued by Regional Councils, and it is pleasing to report that there have been no non-compliance notices issued by regulatory authorities during the year.

An abatement notice was, however, issued by Tauranga District Council to Mount Maunganui Plywood in February 2003. This related to the discharge of process water into a stormwater drain. This was disappointing, but the discharge was stopped immediately the notice was served and work was quickly undertaken to prevent any recurrence of the incident. There were no significant environmental effects as a result of the discharge, and the Council did not pursue Court action or impose any financial penalties.

Fletcher Challenge Forests continues to maintain a comprehensive internal audit programme and, the abatement notice notwithstanding, environmental performance at manufacturing sites overall has been excellent.

ENVIRONMENTAL COMPLIANCE – FORESTS

Both Environment BOP and Environment Waikato carry out regular inspections of our forests to check that we are complying with the conditions of our numerous resource consents. No significant issues were encountered during these inspections this year; in fact Environment Waikato was complimentary on the performance of a number of our harvesting operations. There have been no abatement notices or enforcement actions taken by Councils under the Resource Management Act or other environmental legislation.

Environment Waikato did identify some potential problem areas involving stormwater and sediment controls, mainly associated with roads and tracks. A harvesting site in Mills Forest was also noted as causing sediment movement. These matters are currently being attended to in accordance with the Council's requirements.

The Company commissioned two external audits in April 2003, in Taneatua and Stanley Forests (this audit was a requirement under the ten-year resource consent, issued by Environment BOP, for operations within these two forests). The two audits also included Pinnacles, Waka, Highlands and Waimangu Forests, and examined current and recent harvesting and earthworks operations. A particular focus was also given to aerial herbicide operations.

An important component of the audits was an assessment of staff and contractors' awareness and understanding of the environmental requirements relating to their area of work, and to the Company's Environmental Management System (EMS). This entailed interviews with a sample of staff

(operations managers, planners and supervisors) and contractors.

The auditors' findings indicate that we are achieving good performance:

- All operations comply with the conditions imposed.
- No areas of non-compliance were noted.
- Operational performance observed was found to conform to the Company's EMS.
- The contractors, contractors' employees and FCF staff interviewed were found to have a good understanding of environmental requirements and Company policies.
- Internal management systems that relate to environmental performance appear to be working well.
- The auditor noted that he "did not observe any other matters relating to environmental performance that may adversely affect the Company."

MANUFACTURING SITE CONTAMINATION ASSESSMENTS

This year Fletcher Challenge Forests has invested considerable resources in dealing with residual contamination at sawmills resulting from historical timber treatment practices. Such practices were acceptable at the time and were not carried out by Fletcher Challenge Forests, but were inherited when the Company assumed management responsibility.

All the manufacturing sites that have in the past used wood preservation treatments have now been



assessed for residual contamination. Much of this was a result of spillage and/or drippage of chemicals onto the ground during treatment processes.

Today's treatment processes are regularly audited, and must comply with a strict code of practice to ensure protection of the environment. Chemicals with unacceptable toxicity have now been phased out, and have been replaced with safer alternatives. The most infamous of such chemicals is pentachlorophenolate (PCP) with associated dioxins, which was used in the past as a temporary antispill treatment to prevent the growth of a fungus which, if not stopped, caused unsightly stains. Its use was discontinued in the 1980s.

Permanent treatment is now safely achieved using copper, chrome, and arsenic (CCA) at our state-of-the-art treatment plant at Rainbow Mountain. The process uses steam to fix the chemicals permanently into the wood, eliminating the possibility of leaching and subsequent contamination of the environment.

This year, contamination assessments were carried out at Kawerau, Rainbow Mountain and Taupo by consultants with proven expertise. Each site had soil samples taken using a grid pattern to ensure full coverage, and further samples were taken in areas where it was known that treatment had occurred, or where treated wood had been stored. Using contamination criteria based on the Ministry for the Environment, Ministry of Health (MfE, MoH) Health and Environmental Guidelines for Selected Timber Treatment Chemicals, June 1997, soil samples were analysed for relevant treatment chemicals. A map of the measured levels was drawn up for each site, and in addition, the underlying groundwater and surface water (if present) was also examined.

The study revealed that to a large extent, all three sites fully comply with the guidelines. Work is underway to remediate the limited areas found to exceed the industry guidelines.

Fletcher Challenge Forests is committed to ensuring that all of its processing sites are fully compliant,

and pose no risk to either humans or the environment. Strict operational procedures and "best technology" treatment plants at all sites will ensure the mistakes of the past are not repeated.

FOREST STEWARDSHIP COUNCIL CERTIFICATION – UPDATE

Fletcher Challenge Forests is the first major forestry company in New Zealand to obtain Forest Stewardship Council (FSC) Certification, a process by which the environmental, social and economic management of a forest is measured and verified by an accredited third party.

FSC certification was achieved in October 2000 over our entire Central North Island estate, which at the time consisted of two separate entities – the Central North Island Forest Partnership estate of 189,000 hectares, and the Fletcher Challenge Forests estate of 167,000 hectares. On 1 July 2003, Fletcher Challenge Forests exited the management of the CNIF Partnership forests, and those forests are now being managed by the Timber Management Company (TMC).

FSC certified companies undergo a rigorous audit process on an annual basis. The second annual compliance audit of the Fletcher Challenge Forests estate took place in November 2002, at which time the forest management system of the entire estate managed by Fletcher Challenge Forests, including the CNIF assets, was reviewed.

At the time of the 2002 audit the CNIF Partnership was in receivership. The auditors determined that both Fletcher Challenge Forests and the CNIF Partnership assets were being managed in accord with the principles and criteria of FSC, and verified that the receivership did not call into question the continued certification of either the CNIF Partnership forests or those of Fletcher Challenge Forests.

The auditors concluded that the stump-to-forest-gate chain of custody procedures were operating effectively, and that there were no concerns with

our management that might jeopardize the continued certification of our forests.

Overall, an excellent result was achieved. The auditors determined that our forest management programme fully merited the continuance of the forest management certificate. This was an excellent outcome and reflects the commitment of the Company to the FSC principles and criteria.

There has been little research done in New Zealand on the environmental impact of clear-cut size. Fletcher Challenge Forests is continuing to lead the way with projects investigating such impacts, and linked to these issues is a plan to develop a landscape strategy for our forests. This landscape strategy will look at how the Fletcher Challenge Forests estate fits with the wider regional landscape, and how the impacts of operational activities on visual issues, reserves management, wildlife and other factors can be minimised.

WILDLIFE PROJECTS

Fletcher Challenge Forests has an ongoing programme of surveying and monitoring wildlife within the forest estate. This year we commissioned Wildland Consultants to carry out kiwi surveys in forests where we thought the birds might be present. These surveys were also linked to our regular harvest planning process, where our planners evaluate the environmental values and potential risks associated with the harvesting of a particular area.

Wildland Consultants found kiwi (North Island Brown) in Ngatapa (Hawkes Bay) and in two of our Eastern Bay of Plenty coastal forests, Mokorua and Kererutahi. Of particular significance was the discovery of two potential breeding pairs in Kererutahi Forest. The Company is consulting

closely with the Department of Conservation (DOC) on the future management of these birds. DOC is planning to establish a community-based trust to protect and encourage kiwi in the Whakatane district, and Fletcher Challenge Forests hopes to be part of that programme. Meanwhile, harvest plans and silvicultural operations for the forests concerned will where possible establish measures to help protect the kiwi, such as smaller harvest areas staggered throughout the forest to allow the birds a safe retreat at harvesting time.

We also initiated a project this year to improve the passage of fish throughout the Company's forests. Stage I of this project involved a survey of all culverts within six major forests. For Stage II, local fisheries consultant Ian Kusabs was commissioned to assess each culvert and provide recommendations for enhancing fish passage where required. Ian sampled the watercourses above and below the culverts to gauge their effect on fish migration. The eventual aim of the project is to ensure that all appropriate culverts within the Fletcher Challenge Forests estate are fully passable to fish. This survey is still in progress, and will be completed and reported upon by the end of 2003. Subsequently, we will be working closely with regional councils, DOC and the Fish and Game Council to implement the recommendations from the report.

The surveys carried out by Ian also improved our knowledge of fish distribution. An exciting find was the presence of giant Kokopu in both Tarawera and Taheke-Paengaroa Forests. The giant Kokopu (also known as the native trout) is a member of the whitebait family, and is one of New Zealand's largest native freshwater fish. Individuals may grow to 450mm in length, and can weigh up to 2kg. The species is uncommon, and is categorised by the Department of Conservation as being "Threatened".





Community Investments

Fletcher Challenge Forests continues to benefit our employees and their families by investing in the communities in which we operate

Fletcher Challenge Forests' Community Investments focus continues to be on events and initiatives that benefit the communities in our operating area. Working directly with various organisations on educational, sporting and recreational, and cultural and social events has enabled us to encourage the development of the rural and urban communities throughout the Bay of Plenty, and recognise the commitment and achievements of those organisations.

EDUCATIONAL

The Fletcher Challenge Forests Rotorua Careers Expo

The annual Careers Expo offers the opportunity for young adults to examine career path options and look at ways to further their education. Fletcher Challenge Forests has long been a major sponsor of this important event, and this year the Company increased its level of involvement to become the naming rights sponsor.

The Expo was held 4-6 May 2003, with students, parents and members of the public attending from Rotorua, Taupo, Tokoroa and the surrounding districts. Feedback from visitors was very positive.

Fletcher Tuatara "New Entrant" Packs

Fletcher Challenge Forests has supported the distribution of the Tuatara "New Entrant" packs since the scheme was launched in 2001. Over the year the Rotorua Public Library "Children's Services" Librarians, and their mascot "Fletcher Tuatara", distributed over 1,300 packs in their visits to Rotorua schools. This year 25.9% of the recipients later visited their local library to collect the free book offered in the pack, compared with 18.5% who did so the previous year.

SPORTS AND RECREATION

The Fletcher Challenge Forests Marathon

The Fletcher Challenge Forests Marathon attracts athletes from clubs all over New Zealand and around the world, as well as individuals who enter the event purely as a personal challenge. The gruelling 42.2 kilometre course around the shores of Lake Rotorua starts and finishes at Rotorua's famous Government Gardens. This year, on 3 May, over 1,700 runners and walkers took part in the Marathon.



For the first time, entrants in the event were encouraged to seek sponsors to raise funds for different charities, including the Cancer Society, the Meningitis Trust, the Heart Foundation, the Parkinsonism Society and the World Wide Fund For Nature.

Fletcher Challenge Forests Relay

On 21 September the Whakarewarewa Forest tracks were abuzz with participants in the Fletcher Challenge Forests Relay. The 401 runners and walkers taking part represented a significant rise in numbers over past years, with the biggest increase being in the walking section. Organised by the Lake City Athletic Club, a principal user group of the forest, this annual event has received long-standing support from Fletcher Challenge Forests as a major sponsor and manager of the forest tracks, and in publishing the official results of the relay.

The Company has supported and encouraged participation in a number of other sporting events and initiatives this year, raising funds for small community projects. These events include the Fletcher Challenge Forests Blue Lake Multisport Weekend, the Murupara Kindergarten Fun Run, the Lake Rerewhakaaitu Rugged Run, Relay and Ride, the Rotorua Lakes High School National Secondary Schools Mountain Bike Relay, the Rotorua Blue Lake Rowing Regatta, and the development of a BMX park by the Rotorua BMX Club.

CULTURAL AND SOCIAL

The National Woodskills Festival

An estimated 5,000 people visited the Central North Island town of Kawerau 6-8 September for the National Woodskills Festival. The annual

festival promotes the use of timber as a natural resource, encourages development and excellence in the medium, showcases talent, encourages the exchange of ideas, and creates opportunities for employment and new businesses. The enthusiastic crowds viewed the NZ National Chainsaw Carving Championships, wood chopping demonstrations and woodcraft displays, and took part in competitions.

Fletcher Challenge Forests is pleased to give support to this community event, which each year brings many benefits to its host town, Kawerau.

Eastern BOP Life Education Trust Concert

Fletcher Challenge Forests' support helped treat the people of Whakatane to a spectacular outdoor concert on 11 September, featuring the hit seventies rock band Boney M who were in New Zealand for a brief tour. The "gold-coin-donation" concert was enjoyed by all, and provided an inexpensive family night out while giving financial support to the EBOP Life Education Trust. All proceeds went toward providing a truck for the Trust to transport its mobile classroom to primary and intermediate schools around the region.

The EBOP Life Education Trust provides positive education with a preventative approach to substance abuse, abuse of one person by another, and abuse of the environment. The Trust uses a variety of electronic teaching aids to give children, in their formative years, awareness and understanding of the human body, and to foster skills and attitudes to help the children deal with peer and societal pressures.



Auditor's Report



PricewaterhouseCoopers
 188 Quay Street
 Private Bag 92162
 Auckland, New Zealand
 Telephone +64 9 355 8000
 Facsimile +64 9 355 8001

Review Statement

To the Members of Fletcher Challenge Forests Limited

We have reviewed the information contained in the Health, Safety and Environmental report for the year ended 30 June 2003. 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 2003.

Basis of Review

The review consisted of enquiry, analysis and discussion of information provided to us by Fletcher Challenge Forests Limited. 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.