



CHAIRMAN'S REPORT

THE 2003 YEAR HAS SEEN OUR OPERATING RESULTS MEET BUDGET EXPECTATIONS, BUT MARKET CONDITIONS HAVE CAUSED A SIGNIFICANT NEGATIVE ADJUSTMENT TO THE CARRYING VALUE OF OUR FORESTS. LOWER NZ DOLLAR LOG PRICES TRANSLATE INTO LOWER FOREST VALUES AND WE, ALONG WITH ALL FOREST INVESTORS IN NEW ZEALAND, HAVE BEEN AFFECTED BY THIS VALUE ADJUSTMENT.

Operating earnings of \$7.074 million are ahead of 2002 (\$6.968 million), which is very much in line with our expectations. However, as advised in an April announcement to the stock exchange, the independently assessed market value of the company's forest assets has fallen from \$162.4 million last year, to \$141.9 million as at 30 June 2003. After accounting for this non-cash write-down and, after providing for deferred tax for the first time, the company has reported a loss of \$36.484 million for the twelve month period.

New Zealand is moving towards the compulsory adoption of International Financial Reporting Standards ("IFRS"). In this regard, Evergreen has made two important accounting policy changes this year. The first of these changes is the introduction of valuation accounting rather than historical cost accounting for forestry assets. Valuation accounting has been adopted with effect from 30 June 2003 and in future, the company's operating result will include both realised returns from the harvesting of its trees, and unrealised movements in underlying value of the company's forests. This economic approach to earnings measurement is appropriate for a business like ours where a substantial proportion of the shareholder return within an accounting year may be represented by the unrealised value of the biological growth of the company's forests and price driven valuation movements.

The second accounting policy change involves the recognition of the company's notional deferred taxation liability. This provision is in respect of tax payable that would crystallise in the event of a total sale of the company's forest estate. Evergreen has substantial tax losses to carry forward and combined with future costs related to the maintenance and development of our forest estate, the company is most unlikely to pay tax for the foreseeable future. The provision is required to meet the international accounting standards and there are no current plans that would see the provision crystallise. The deferred tax provision equates to approximately seven cents per share (on a fully diluted basis).

Shareholders will recall that the potential impact of valuation accounting and deferred taxation were referred to in the 2002 Annual Report and again in the half-year report to December 2002.

INDUSTRY OUTLOOK

Industry sector results announced this year reflect the impact of a significant upward movement in the value of the New Zealand dollar, increased costs (particularly in shipping), and flat US dollar prices for products. The scale of the impact is significant.

In September 2001 the NZ dollar bought US\$0.40. A year later it bought US\$0.46 and in August 2003 it bought US\$0.58. The general view must be that the mid rate range (US\$0.50 – US\$0.55) is an appropriate level for New Zealand exporters to base their investment strategies upon. There are financial hedging arrangements that provide some protection from currency movements but business success must be measured on the underlying margins generated from trading.

Trading operations in any sector are unlikely to be able to cope with a 50% volatility against their major trading currency and maintain profitability at target levels for an extended period.

Stumpage realisations since July 2002 have fallen by as much as 60% due to currency movements and increased shipping costs (see table).

ILLUSTRATION OF IMPACT ON RETURNS

LOG GRADE PERIOD	PRUNED		A GRADE	
	JUL 02	JUL 03	JUL 02	JUL 03
USD Price (CNF)	\$107	\$107	\$66	\$67
Shipping/Services (USD)	\$20	\$27	\$20	\$27
Currency (NZD: USD)	0.48	0.585	0.48	0.585
NZD Price (FOB)	\$181	\$137	\$96	\$68
NZD Costs	\$60	\$60	\$50	\$50
NZD Margin	\$121	\$77	\$46	\$18
Impact		(36%)		(61%)

Source: Evergreen Forests Limited.



GOVERNMENT

Last year I referred to Evergreen's view on the Kyoto Protocol and the pending nationalisation of carbon credit rights held by property owners. Nothing has happened in this last year to reduce those concerns. The forestry industry is a major contributor to this country's economy. The effective confiscation of carbon sequestration credits, delays in dealing with transportation and infrastructure issues, and perceived regulatory barriers to investment in New Zealand-domiciled processing, are issues that demand a high level of industry and Government attention.

These are not easy problems to resolve but if you believe as I do, that agri-based industries will continue to be the driver of New Zealand's economic wealth, then some priority needs to be directed to assisting rather than inhibiting our key industries.

We are seeing the consequences of difficult times and I believe the industry is working hard to minimise the impact. There needs to be a higher level of understanding of what is needed to be done and what it is that Government can and should do to assist in creating a positive climate for business development.

INVESTMENTS

This year \$8.5 million has been spent on development forests (including interest costs) with much of this investment made in our East Coast forests. Our policy of investing to optimise pruned wood production continues on favoured sites and we are satisfied that all our forests are in good health and meeting targeted growth rates.

We have evaluated a number of modest sized forest opportunities but have not made any acquisitions.

FUNDING

We concluded a 10 year US dollar denominated facility with the Boston-based John Hancock Life Insurance in February. This loan refinances the facility provided by

Carter Holt Harvey on our purchase of the Waiau and Wairoa forests in 1999. The facility carries an interest rate of 6.88% and the loan meets our objectives to obtain longer-term facilities while providing a modest portion of our debt with exposure to the US dollar.

We have also extended our banking arrangements with Westpac Banking Corporation to a five-year term. These facility changes allow us to better align our expected crop maturity with our debt obligations.

The impact of negative forest value changes does result in debt levels that are higher than your Board considers appropriate for the longer term. Consideration is being given to strategies to improve the debt ratio. The further conversion of 2.732 million convertible notes in February 2003 has reduced debt and increased equity.

LONGER TERM INDUSTRY OUTLOOK

The last year has again shown us the extent to which we in New Zealand are dependent on the health of the major developed economies. With much of our trade in US dollars, any significant movement in the US economy has a profound effect on our export industries. That is particularly so in the forestry sector where the Chinese currency is linked to the US dollar and trade with most Pacific-rim countries is denominated in the same currency. Diversification of markets and of products, and increasing acceptance of the special qualities and versatility of New Zealand plantation-grown timber are clearly important strategies. The challenge is to be able to attract additional investment in processing in New Zealand. The increasing maturity of forests in regions such as Gisborne and Northland do provide a resource base for further processing investment.

The desirability of investment in renewable resources that are produced in an environmentally friendly manner seems to be widely accepted. However, this has not provided any recognition by way of demand or price premium, as yet. Certification of forests as sustainably managed, combined with a focus on high standards of

service and consistent quality, are helping the industry, as is the New Zealand reputation and experience as plantation foresters.

What is needed is evidence of the cessation of indigenous harvesting. That will be the driver of improved demand for plantation grown timber and while it is absolutely certain that demand will emerge, the question remains - when.

Evergreen has always asserted that investment in this sector is long term. We anticipated our operating cash flows would progressively increase as harvest availability improved and our view, and that of our independent valuers, has been that prices would trend upwards. We still hold that view but acknowledge that the upward momentum has yet to emerge in the marketplace.

It may be that the structure for forest ownership needs to have greater flexibility to be able to reduce harvest in low price cycles. Evergreen has this flexibility and plans to moderate harvest this year. Flexibility may be enhanced through scale that enables higher levels of management efficiency and lower debt levels.

Evergreen needs to manage the longer than planned period before price improvements are obtained, and in so doing, address administrative costs and ways in which debt ratios may be reduced.

Unlike the Asian downturn in 1998, short-term prospects are more likely to improve through our currency returning to mid point levels and a return to more competitive shipping rates. The anticipated lift in the US economy will probably be the driver of improved product prices.

Evergreen expects both to be evident in the second quarter of 2004.

EVERGREEN PRIORITIES

- 1) In the last 6 months your Directors have undertaken a review of process and organisational efficiency. We conclude that:
 - The marketing subsidiary, Forestry New Zealand Limited, is achieving very good margins from the company's harvest volume in the current market and adding value through co-ordination of shipping and third party purchasing of logs. The cost of this in-house service is in line with external costs and we enjoy the benefits of a team focused on Evergreen's production.
 - The management of Evergreen's pure play forest ownership function remains appropriately small and we see no need to change this approach.
 - There is some added cost arising from the listed nature of the company. These costs would be relatively lower should the company achieve greater scale and if that scale is not realised then the costs associated with listing must be reviewed.

- 2) Shareholders will be aware of the Board's desire for this company to be considerably larger. Obtaining scale remains a key goal for us and growth will allow us to gain efficiencies from our present base. Evergreen has the skills and experience to increase assets under management while maintaining the level of specialist input to ensure high levels of investment overview. Evergreen will be looking to achieve growth and while the investment market is challenging, your Board considers the company has the credentials to justify growth as a priority in the year ahead.
- 3) We want to ensure we preserve the important fabric of our relationships with customers, suppliers and contractors. Forestry is a cyclical commodity business and it is essential to maintain a market presence and retain skills and investment at a level that enables periodic downturns to be managed. Evergreen will play a constructive part in that process.
- 4) There is however, a need to deliver benefits to our shareholders. We expected to be in a position where we would be distributing some income to our shareholders this year. That will not happen and the market prospects for that to happen in the near term are not promising. We can moderate our harvest to meet operational costs and service debt but to deny improved future returns by accelerating harvest in current market conditions is not seen as being in shareholder's best interests.

GOVERNANCE

Ohio Public Employee Retirement System is the beneficial owner of 42% of the ordinary voting securities in Evergreen. This shareholder has nominated two appointees to our Board to replace the Xylem Fund appointees who retired last year.

We are pleased to welcome Paul Fowler and Robert Kriscunas to the Board and look forward to their contribution. Both have relevant experience in the forestry industry.

ACKNOWLEDGEMENT

The demands of this industry have required considerable effort and the commitment and determination of the Evergreen team has been of a high standard.



Peter Wilson
CHAIRMAN
20 September 2003





CHIEF EXECUTIVE'S REPORT

INDEPENDENT VALUATION OF THE COMPANY'S FOREST ESTATE HAS RESULTED IN A SIGNIFICANT WRITE-DOWN OF THE CARRYING VALUE OF OUR FORESTS. OUR TRADING PERFORMANCE THIS YEAR WAS ON BUDGET AND FROM AN OPERATIONAL VIEWPOINT WE DID WHAT WE HAD PLANNED TO DO.

On the back of an increase in harvest levels, Evergreen had record operating earnings of \$7.074 million in 2003 (2002: \$6.968 million) and has cash deposits of \$6.6 million at year-end. This has placed the company in a sound position to manage through the current market downturn and assist preservation of shareholder value through deferral of low margin harvest.

We have achieved a number of our goals over the past year, including:

- **Marketing:** The company's marketing subsidiary, Forestry New Zealand made a positive earnings contribution and, more significantly, delivered real gains in increasing the margin from Evergreen's harvest operations.
- **Log Quality:** A Debarker and Anti-Sapstain Plant was commissioned at Marsden Point, Northland, in September 2002 and delivered a small profit and a positive cash return. The plant has significantly improved the quality of logs delivered to our export customers.
- **Debt Restructure:** Earlier this year we refinanced an existing term loan from the proceeds of a ten-year, US dollar denominated facility from John Hancock Life Insurance Company. This refinancing coincided with record low interest rates in the US market. At 30 June 2003 the average duration of the company's term debt was 5.8 years compared with 3.3 years twelve months ago.
- **Environmental Certification:** Independent certification of Evergreen's North Island forests was granted by the Forestry Stewardship Council (FSC). The logs from these forests can now be sold to customers requiring certified product to meet chain of custody compliance. This is an important advantage in terms of access to increasingly discerning high-value markets.

OPERATIONS

For the year ended 30 June 2003, Evergreen's harvest was 295,450m³, an increase of 47% over the total harvest in 2002. This remains below the company's near-term sustainable harvest capability of some 360,000m³ per annum. In addition to the harvest volume from our own forests, the company sold 20,945m³ of logs through its third party log trading activities.

Evergreen maintains its ability to respond to changes in market conditions allowing it to target its production to the highest return customers. Evidence of this has been the shift away from export markets over the second half of the financial year in favour of increased supply to domestically based customers.

We did generate lower revenue returns from a higher level of harvest volume. This is partly because of lower log prices this year and a reflection of our decision to harvest a greater proportion of lower margin framing-regime stands.

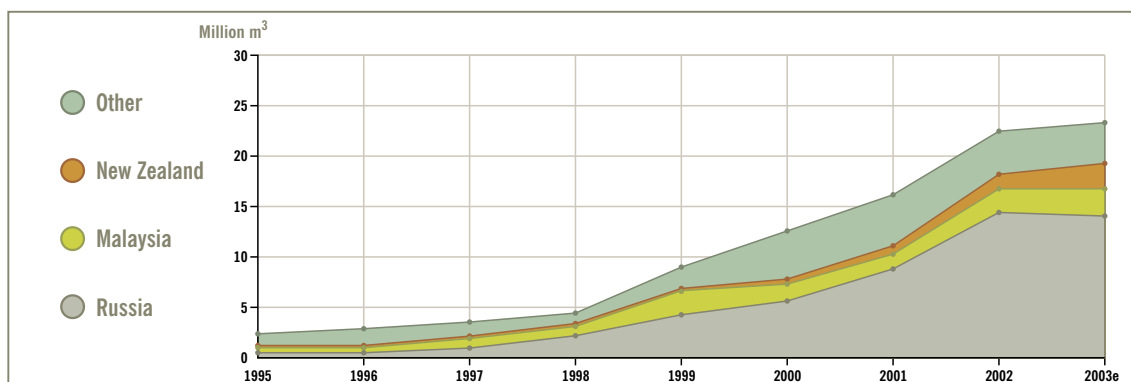
Our Forestry New Zealand division proved particularly helpful in determining our options in a changing market.

MARKETS

The continued growth in demand for NZ radiata pine from China has been one of the features of the year. China imports logs from New Zealand across the full quality spectrum (pulp, unpruned and pruned sawlog grades) and USD prices have firmed during the year. China has now surpassed Japan as New Zealand's second largest market for logs behind Korea. This market demand is underpinned by China's reduced harvest, its strong economic performance, and WTO-related initiatives.

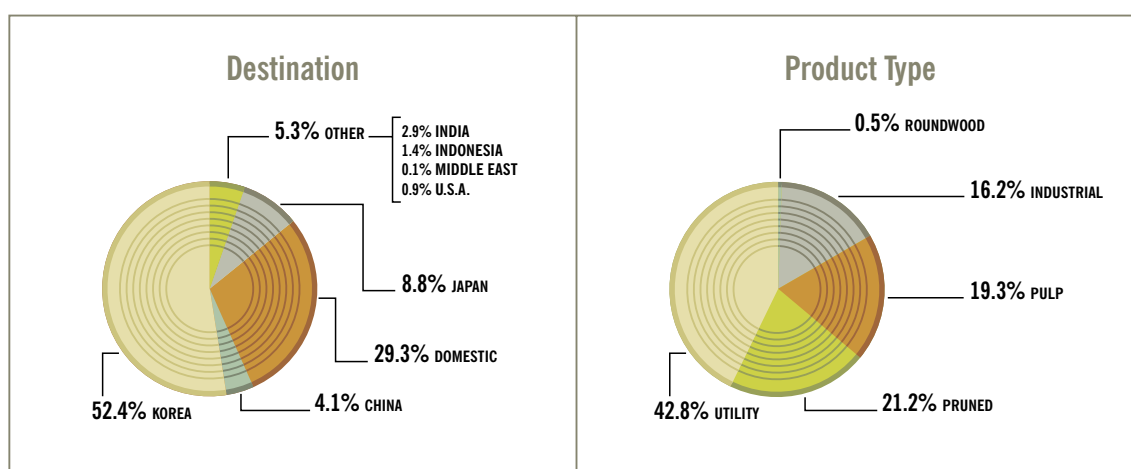
Evergreen has focused on building direct relationships with China-based customers, particularly those connected with or directly involved in the rapidly growing furniture manufacturing sector.

CHINA - LOG IMPORTS BY COUNTRY



Source: Jaakko Pöyry Consulting Forest Valuation as at 30 June 2003.

2003 EVERGREEN HARVEST DATA



Source: Evergreen Forests Limited.

We are confident that there will be further strong growth in the China market.

Domestically, there has been strong demand from sawmills producing framing lumber for the Australasian market and prices have held, but in other key markets there has been a significant fall in NZ dollar prices, particularly during the second six months of the financial year. This fall has been triggered by the combination of a number of factors including lower prices for appearance grade lumber in the US, higher shipping costs and the rapid appreciation of the New Zealand dollar.

OUTLOOK

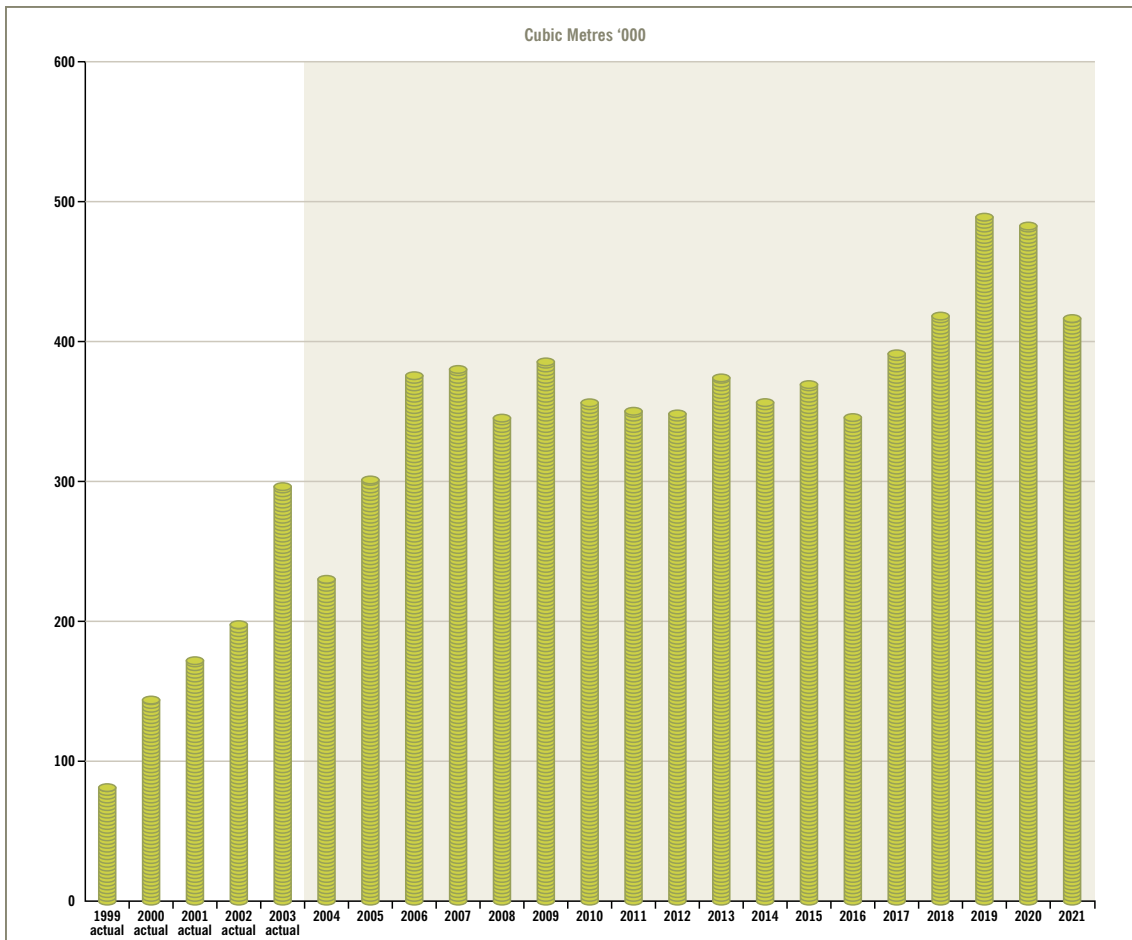
The outlook for this financial year is uncertain with some economic forecasters predicting stronger world growth but conversely there is no end in sight to the higher NZ dollar. At current log prices, Evergreen is planning to:

1. Moderate its harvest level to preserve value in anticipation of log prices improving in the medium term. Based on current market conditions the company expects to reduce its harvest to around 230,000m³ over the next twelve months.

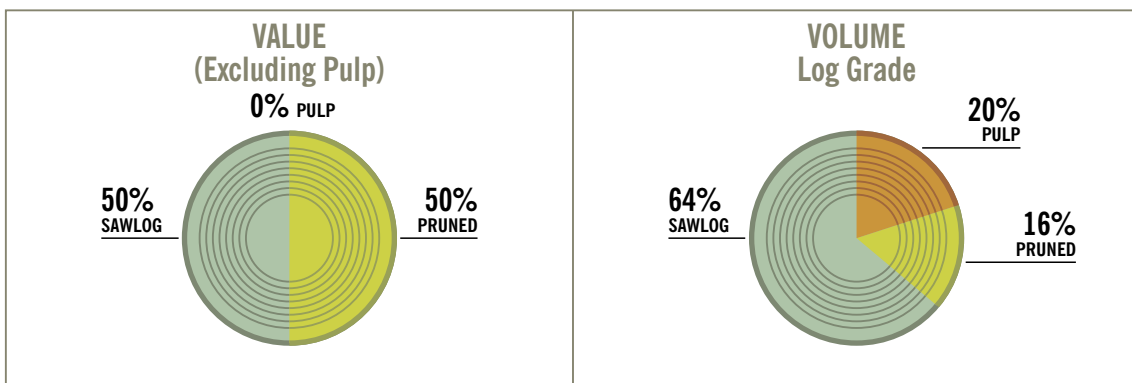
2. Ensure we have the ability to accelerate our harvest again as soon as market conditions improve.
3. Target forest areas for harvest that are best suited to the current market. This is currently unpruned stands supplying domestic customers rather than export markets.
4. Continue developing profitable niches in export markets, particularly in China and Korea.
5. Increase the level of third party log trading to preserve customer relationships and maintain our presence in export and domestic markets.
6. Implement ongoing cost control measures.
7. Consider selective asset sales.

A reduced harvest will result in a lower cash flow for 2004 and the company is aware that this will delay its ability to provide shareholders with a cash return. However the current market conditions are some of the most challenging that the industry has experienced for many years and the potential value gains from a delayed harvest are considerable. Most commentators believe that we are at or near to the low point in the commodity cycle. Evergreen shares this view.

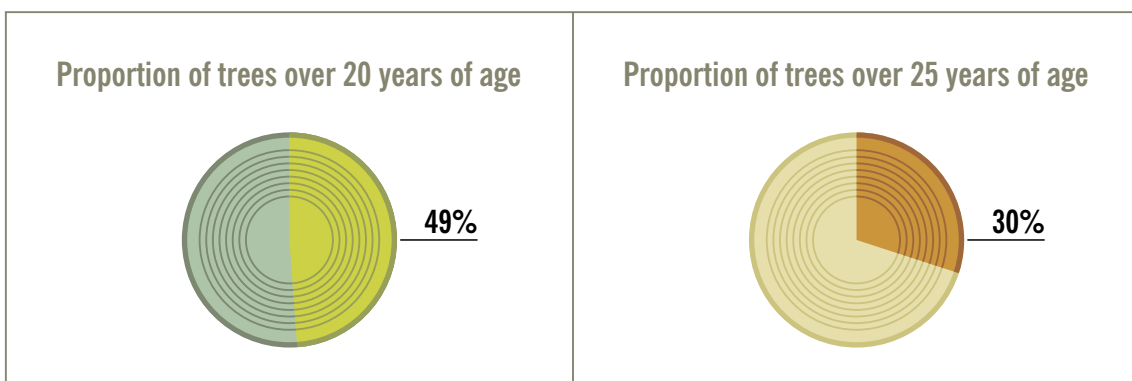
HARVEST PROFILE



FOREST VALUE: DISTRIBUTION BY LOG TYPE



FOREST VALUE DISTRIBUTION BY AGE



EVERGREEN FORESTS NTA

	30 June 03	30 June 02
Undiluted		
Net Asset Value before deferred tax	\$0.70	\$0.85
Net Asset Value after deferred tax	\$0.60	N/A
Fully diluted (allowing for all convertible instruments converting into shares)		
Net Asset Value before deferred tax	\$0.66	\$0.78
Net Asset Value after deferred tax	\$0.59	N/A

NET ASSET VALUE PER SHARE (UNDILUTED)¹ as at 30 June 2003

Value of Evergreen's ordinary shares with different price growth and discount rate assumptions

DISCOUNT RATE ³	REAL PRICE INCREASE ²		
	Nil%	One%	Two%
Eight per cent	\$0.83	\$0.98	\$1.14
Nine per cent	\$0.70	\$0.83	\$0.97
Ten per cent	\$0.59	\$0.70	\$0.82

1. Before deferred tax. 2. Per annum, over the ten-year period 2008 to 2018. 3. Pre-tax, real.

FOREST VALUE REDUCTION

The valuation of a long term asset by discounting its projected future cash flows is sensitive to relatively small changes in revenue assumptions. This is particularly evident in Evergreen's 30 June 2003 forest valuation. Jaakko Pöyry Consulting ("JPC"), in completing its annual valuation of the Evergreen estate has lowered its market value assessment from \$162.4m as at 30 June 2002 to \$141.9m as at 30 June 2003. This valuation change is primarily the result of the lower log prices being used in the valuation. While disappointing, the possibility of a forest value change was foreshadowed in the company's December 2002 interim report to shareholders.

SUMMARY

Forestry as an asset class is a proven inflation hedge, is considered a hard asset, and returns are protected to some degree by physical biological growth of the trees. Investors are increasingly valuing these attributes in the investment environment of the past few years.

In contrast to the steady, reliable growth of the trees is the cyclical nature of the log markets. Flexibility is a key attribute in increasing returns in cyclical markets and the company believes that a combination of lower debt ratios and greater scale that allows full utilisation of administrative capacity are essential goals.

The opportunity to deliver value for shareholders and allow an expectation of a cash yield is dependent on what we as a company do to address the issues of scale and debt ratios and the market prices for New Zealand forest products in the future.

The present challenge is to manage the consequences of a negative pricing period while positioning the company appropriately for the future.

Together with my small and committed team, I am happy to accept that challenge.



Mark Bogle
CHIEF EXECUTIVE
20 September 2003

