

Evergreen Forests Limited is a pure play, plantation forestry investment company, with no downstream processing. Evergreen's objective is to provide superior shareholder returns through a progressive listed company managing a portfolio of high-quality plantation forestry assets that meet clearly-defined investment criteria. Harvesting commenced in the company's Northland forests in September 1998.

As at 30 June 1999, it owns or has cutting rights over 22,800 hectares of land, of which 18,200 hectares are planted in fast-growing radiata pine. The company is run by a small Auckland-based executive team. Forest development, harvesting and marketing are managed by specialists on contract.

Evergreen is a public company with 2,400 shareholders listed on both the Australian and the New Zealand Stock Exchanges. The code of the ordinary shares is EVF and the code of the ten-year zero coupon convertible notes is EVFGA (EVFG on the Australian Stock Exchange). The company is also traded in the USA by way of a sponsored Level 1 American Depositary Receipt (ADR) programme (issuer code: EVFSY).

# financial summary

FOR THE YEARS ENDED 30 JUNE	1999	1998	1997	1996	1995	1994
\$NZ 000'S (UNLESS OTHERWISE STATED)						
Operating revenue	8,811	591	1,145	2,550	3,428	266
Net (deficit) surplus before taxation	3,091	(147)	(202)	(63)	255	46
Equity	99,281	96,190	96,337	79,606	76,982	22,079
Shares on issue (number in 000's)	131,434	131,434	131,434	100,411	96,828	23,000
Land at cost	24,082	24,247	24,180	18,105	16,890	916
Forest at cost	116,063	108,890	101,512	62,646	58,095	15,885
Forest at valuation (nine percent discount rate)	129,886	122,323	122,176	72,170	78,211	16,357
Net asset backing at historical cost	\$0.76	\$0.73	\$0.73	\$0.79	\$0.80	\$0.96
Net asset backing at valuation	\$0.86	\$0.83	\$0.89	\$0.89	\$1.00	\$0.98
As at close of day – 30 June						
Share price	\$0.44	\$0.40	\$0.58	\$0.59	\$0.69	\$0.78
Convertible note price	\$1.03	–	–	–	–	–
NZSE 40 Capital Index	2,136	1,965	2,502	2,096	2,030	1,997
Ten year government stock interest rate	6.63%	6.35%	6.95%	8.67%	7.59%	7.66%
90 day bank bill interest rate	4.76%	7.88%	6.88%	10.27%	9.02%	6.99%
NZD/USD exchange rate	0.5363	0.5199	0.6800	0.6770	0.6690	0.5942
NZD/AUD exchange rate	0.8152	0.8427	0.9002	0.8621	0.9373	0.8164
NZD/JPY exchange rate	64.91	72.19	77.95	73.74	56.62	58.42

All financial information is in New Zealand dollars, unless otherwise stated.

# progressive highlights

## First operating profit recorded

- **\$3.091 million profit from modest harvesting programme in difficult trading conditions**

## Convertible note issue completed

- **Innovative concept - ten-year zero coupon**
- **Pro rata issue, well supported by existing shareholders**
- **Balance sheet strengthened**

## Market conditions improving

- **Signs that the worst of the Asian crisis may be over with demand returning in key markets**

## Shareholder value retained

- **Net asset value per share \$0.86 (1998 \$0.83)**
- **Substantial reserves of mature and near-mature stands**
- **Company poised for future growth**



## Area location of forests

as at 30 June 1999

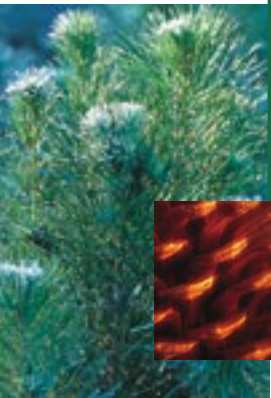


## Statistics and conversions

- 1 hectare (ha)  
= 100 metres x 100 metres
- 1 hectare (ha)  
= 2.47 acres
- 1 cubic metre (m<sup>3</sup>)  
= 1m x 1m x 1m
- 1 cubic metre (m<sup>3</sup>) of radiata pine (green, undried) weighs between 1 and 1.1 tonnes (1,000 and 1,100 kg)
- 2.36 cubic metres = 1 thousand board foot (MBF) lumber measurement basis
- 5 cubic metres = 1 MBF (approx) log measurement basis

# chairman's report

**Peter Wilson**  
Chairman



The directors' expectations of a modest profit for the year to June 1999 were realised. The year's profit (\$3.091 million) exceeded our expectations and the company expects further improvement in the year ahead.

Evergreen's policy is to manage harvest levels to market conditions.

Although there are no immediate plans to

increase the company's harvest levels, our forest management has ensured that we are in a position to access significantly higher levels of harvesting as market conditions improve.

## Investments

Evergreen continues to invest to optimise the value of its existing forests. This year a further \$7.319 million has been invested in our development forests. We seek to maximise the cost benefit of this investment as it is Evergreen's view that a high value end use product requires investment in forest development at the right time and at the right level.

No new forest acquisitions have been made this year but Evergreen has increased its stake in Nuhaka and our objectives for growth remain.

## Funding

A major achievement during this last year has been the issuance of ten-year zero coupon convertible notes. This issue, on the basis of a 1 for 6 pro rata allocation

to existing shareholders, raised \$22.4 million. The notes carry an annualised pre-tax return of 7.18 percent and are able to be redeemed at the shareholder's option for cash or converted to ordinary shares at an exercise price of \$0.55 on or before the redemption date of 19 March 2009.

The company provided an incentive for existing shareholders through a ten percent discount on the first 1,000 notes applied for. The issue was well supported by shareholders and the notes are presently well supported in the market.

Funds have been applied initially against the company's term borrowings with its banker. An extension to existing bank funding lines and an extension of the term of the arrangements has also been negotiated.

These measures provide a stable and appropriate funding source for Evergreen's next development phase.

## Market conditions

New Zealand's economy generally, and the export commodity sector in particular, has enjoyed a slightly improved year. Timber prices have moved upwards but still have some distance to reach historical trend line levels. There is, however, justified optimism for improving price trends as there is some recovery in the Asian market and emerging opportunities in India and China. It is likely that more consistent yields will be earned from the more mature markets in the US, Japan and South Korea.

Evergreen has been involved directly in the marketing of its production over the last year to a range of commodity and niche markets. Successful marketing of our wood is equally as important as good management of forests and harvesting practices. The company is confident that the experience gained over the past year will ensure a continuation of successful and well-managed forestry, harvesting and marketing activities.

As at 30 June 1999 the company had considerable reserves of mature and semi-mature standing timber. The proportion of our forests 20 years and older by value is now very high and Evergreen is well placed to capture the gains of any pricing improvement (see charts).

### Shareholder returns

Forestry resource ownership is perceived as being a long-term investment, particularly as many New Zealanders have gained their exposure to the industry by joining others in the planting of trees. This perception rapidly changes when the trees are able to be harvested. The opportunity afforded to investors through Evergreen is that they are able to invest in a range of forest investments with a variety of maturities which provide an underlying investment yield which is short-term.

As Evergreen moves out of the development phase and into the income-generating phase shareholder

returns will increase. However while the company is still growing and showing a modest profit your Board has determined that shareholders' interests are best served by reinvesting the company's profits for capital growth rather than providing an initial dividend. As Evergreen's profits grow this policy will be reviewed.

### Outlook

The New Zealand forest industry continues to invest in extending the market for radiata products and the higher value applications of the resource. Improved product utilisation and the increasing role that plantation forests will play in meeting global demand provide a promising future for forestry. As one of New Zealand's major industry groups the quality of the investment and the strategic positioning of the product are fundamental.

Evergreen has been nurturing its assets to provide good future value. The rearrangement of our funding lines and the successful implementation of the convertible note issue provide us with capacity for growth. We will continue to seek appropriate investments this year.

On behalf of the Board I acknowledge the strong contribution of our executive team.

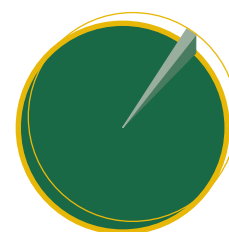


**Peter D. Wilson**

Chairman

30 August 1999

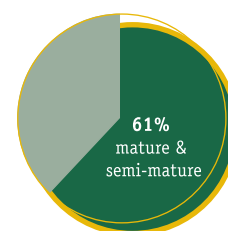
### HARVEST CAPABILITY (VOLUME) in millions m<sup>3</sup>



■ 1998-99 (actual)	0.08
■ 2000-09 (projected)	2.51

### FOREST VALUE DISTRIBUTION

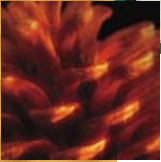
Proportion of forests  
20 years & older



Source: Jaakko Pöyry  
Consulting forest valuation  
as at 30 June 1999. Further  
valuation information is  
presented on page 10.

# chief executive's report

**Mark Bogle**  
Chief Executive



The commencement of commercial harvesting is an important milestone for the company. In a practical manner we have demonstrated that we have the competencies to manage the important process of harvesting at a yield which provides profit for shareholders. That experience has enabled us to gauge our future needs as available harvest volumes increase in the near-term.

The company has successfully rearranged its funding lines on advantageous terms during a period of cyclical lows. The resultant structure provides us with capacity to extend our forest investments and we are confident of our ability to invest wisely.

The international trends for timber-related products have recovered much more

quickly than was anticipated 12 months ago. The substantial forest acquisitions by major international investors in Australasia have been fully priced.

Evergreen's ability to access mature forests to achieve early cash flows is starting to become a reality and our optimism has been enhanced by evidence of the emergence of new markets and stronger performance in traditional markets for New Zealand radiata pine.

## Operations

The company has continued to invest in the development of its existing forests which now total 18,192 net stocked hectares.

Harvesting commenced in the company's Northland forests in September 1998. Production of 82,337m<sup>3</sup> generated sales of \$8.267 million. In addition, \$0.272 million was received from the salvage of a small area affected by wind on the West Coast of the South Island.

## LAND AND FOREST HOLDINGS

Net stocked area as at 30 June 1999

NORTHLAND 6,021 HA

SOUTH AUCKLAND 3,927 HA

EAST COAST NORTH ISLAND 6,375 HA

WEST COAST SOUTH ISLAND 1,869 HA



## LAND AND FOREST HOLDINGS

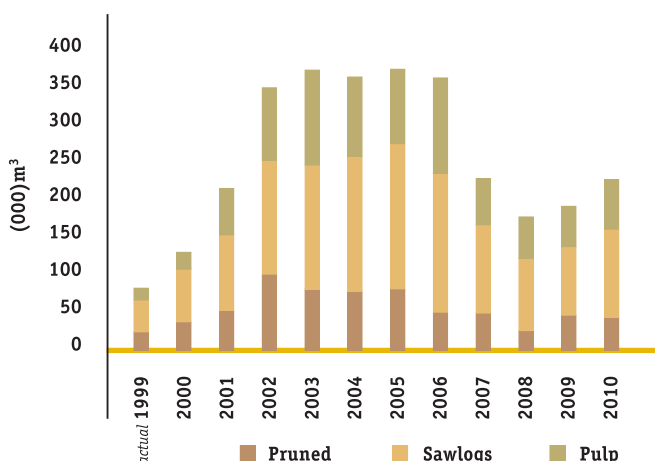
AS AT 30 JUNE 1999, IN HECTARES	LEGAL AREA	PLANTABLE AREA	NET STOCKED AREA
<b>Owned land</b>			
Northland	7,257	6,158	6,021
South Auckland	5,577	3,927	3,927
East Coast North Island	7,661	6,375	6,375
<b>Total owned</b>	<b>20,495</b>	<b>16,460</b>	<b>16,323</b>
<b>Forestry rights</b>			
West Coast South Island	2,326	2,106	1,869
<b>Total all properties</b>	<b>22,821</b>	<b>18,566</b>	<b>18,192</b>

The company's decision to moderate its production during the Asian downturn means that it has substantial reserves of mature and semi-mature standing timber (see Harvest Profile). As a consequence, production can be increased to take advantage of market conditions which are expected to improve over the next few years. A significant proportion of future harvest will be high value pruned logs (see charts).

Evergreen manages its plantations for maximum investment return on each growing site. In most cases, stands are managed under an intensive clearwood regime which involves multiple lift pruning and thinning to produce high quality knot-free clearwood on the lower section of the trunk of each tree. Pruning of radiata pine involves the removal of the lower branches from the tree at a young age to produce

### HARVEST PROFILE (CLEARFALL VOLUME) 1999 – 2010

Years ended 30 June

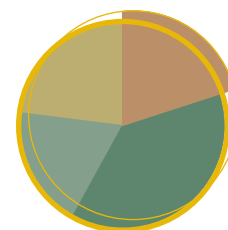


Source: 1999 valuation reports. Figures include share of Nuhaka harvest.

### DISTRIBUTION BY LOG TYPE

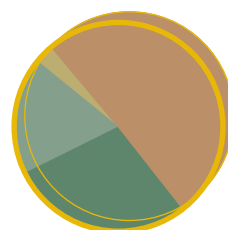
#### Volume

Pruned	20%
Export	38%
Domestic	19%
Pulp	23%



#### Value

Pruned	50%
Export	28%
Domestic	18%
Pulp	4%



Source: Jaakko Pöyry Consulting forest valuation as at 30 June 1999.

# chief executive's report

## Clear outerwood zone

Properties – high proportion of sapwood; higher density.

## Knotty corewood zone

Properties – high proportion of heartwood; lower density.

clearwood on the outer portion of the trunk. Clearwood is used in the manufacture of defect-free veneer and for high value appearance grade lumber products. The proportion of clearwood in the stem is dependent on the size of the central knotty core and the diameter of the stem at the time of harvest. These variables can be influenced by the timing of thinning and pruning operations and harvest age.

## Forest Valuation

The company engaged Jaakko Pöyry Consulting (Asia-Pacific) Limited ("JPC"), previously Groomer Pöyry Limited, to independently assess the market value of Evergreen's forest assets as at 30 June 1999. The latest valuation equates to an asset backing of \$0.86 per undiluted ordinary share:

The JPC valuation discounts projected future pre-tax cash flows by nine percent real, assuming a recovery to trend line log prices by 2005, and zero real log price growth thereafter. The net asset value matrix below tests sensitivity across a range of discount rates and real price growth assumptions. Further valuation information is presented on page 10.

## Australian Stock Exchange Listing

Due to the growing interest from Australian investors, the company decided that a secondary listing on the Australian Stock Exchange ("ASX") would raise the company's profile in the wider Australasian market. The company was admitted to the ASX on the 31 May 1999. The ASX code for the ordinary shares is EVF and for the convertible notes is EVFG.

PINEWOOD PICTURES



## MARKET VALUE

YEARS ENDED 30 JUNE	1999	1998
Equity (\$m)	99.3	96.2
Add: Forests (at valuation) (\$m)	129.9	122.3
Less: Forests (at cost) (\$m)	(116.1)	(108.9)
Equity (at valuation) (\$m)	113.1	109.6
Divide by: Issued shares (million)	131.4	131.4
Net asset value per share (\$NZ)	0.86	0.83

## NET ASSET VALUE

AS AT 30 JUNE 1999

EFFECT IN \$NZ PER SHARE OF DIFFERENT PRICE GROWTH AND DISCOUNT RATE ASSUMPTIONS

DISCOUNT RATE <sup>2</sup>	REAL PRICE INCREASE <sup>1</sup>		
	NIL %	ONE %	TWO %
Eight per cent	1.00	1.14	1.28
Nine per cent	0.86	0.97	1.09
Ten per cent	0.74	0.83	0.93

<sup>1</sup> Per annum, over the ten-year period 2005 to 2015.

<sup>2</sup> Pre-tax, real.

## Y2K Issues

On the basis of assessments completed to date and compliance plans in process, Evergreen does not expect that the Year 2000 problem will have a material effect on its business operations, and that Evergreen's in-house systems, sub-systems, and third-party supplied software are Year 2000 ready.

The company has not sought independent verification or endorsement of its own compliance, compliance programme or contingency planning.

Shareholders and investors may enquire further about the company's Year 2000 activities by contacting the company or by viewing the company's Year 2000 Readiness Report at: [www.nzse.co.nz](http://www.nzse.co.nz).

## Internet website

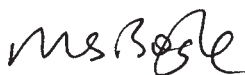
This report, previous reports and other relevant material can be accessed on the company's website

[www.evergreen.co.nz](http://www.evergreen.co.nz). The website includes a provision for shareholder feedback and provides links to other forestry-related internet sites such as the Wood New Zealand website [www.woodnz.co.nz](http://www.woodnz.co.nz).

## Summary

There are encouraging signs that the worst of the Asian crisis may be over. In general, New Zealand forest companies have come through the downturn relatively unscathed. At an industry level, good progress is being made in the development of alternative markets for New Zealand radiata products.

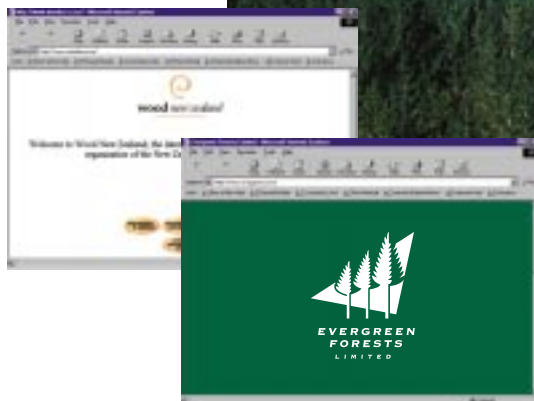
Evergreen's latest financial performance was creditable in difficult market conditions and this augurs well for the company's future prospects.



**Mark S. Bogle**

*Chief Executive*

*30 August 1999*



# supplementary forest information

## Forest Valuation

Evergreen's forests were independently valued at 30 June 1999 by Jaakko Pöyry Consulting (Asia-Pacific) Limited. The net present value, or "expectation value", approach was used, whereby projected future net cash flows were discounted to provide a current market value of the collective forest and land resource. An estimate of the land value was then subtracted to provide a value of the tree crop. The following process was adopted in the valuation methodology:

- A stand based approach was employed whereby stands are scheduled to be harvested at or near their optimum economic rotation age.
- The cash flows are those arising from the current rotation of trees only. No account was taken of revenues or costs from re-establishment following harvest, or of land not yet planted.
- The cash flows do not take into account income taxation.
- No allowance for inflation was provided. Future revenues and costs were expressed in current dollar values.

## EFFECT OF REAL PRICE INCREASE AND DISCOUNT RATE ASSUMPTIONS

FOREST CROP VALUATIONS ASSUMING THREE ANNUAL REAL PRICE INCREASE SCENARIOS: IN \$NZ MILLIONS

DISCOUNT RATE	NIL % REAL PRICE INCREASE	ONE % PER ANNUM REAL PRICE INCREASE*	TWO % PER ANNUM REAL PRICE INCREASE*
Eight per cent	148.8	166.0	184.8
Nine per cent	129.9	144.3	159.9
Ten per cent	114.1	126.2	139.4

\*per annum, over the ten-year period 2005 to 2015.

## LOG PRICES ADOPTED IN THE 1999 VALUATION

IN \$NZ PER M <sup>3</sup>	2000	2001	2002	2003	2004	2005
Pruned	164.90	172.50	182.50	182.50	180.50	177.50
Small pruned and high quality structural	116.74	127.76	132.34	130.90	127.95	126.45
Export A Longs	98.90	113.79	112.91	109.95	105.93	105.93
Export A Shorts	92.26	106.25	105.43	102.65	98.88	98.88
Export K Longs	69.46	78.48	80.25	85.09	83.44	84.98
Export K Shorts	64.92	73.42	75.09	79.66	78.10	79.56
Domestic structural	98.58	113.02	112.17	109.30	105.40	105.40
Domestic packaging	64.59	70.98	71.50	72.81	71.39	71.99
Domestic pulpwood	50.00	50.00	50.00	50.00	50.00	50.00

Note: Prices from 2006 onwards are the same as those shown for 2005.

## PROJECTED AVAILABLE HARVEST VOLUMES

IN 000M <sup>3</sup>	PRUNED LOGS	SAWLOGS	PULP LOGS	TOTAL
PERIOD				
2000 to 2004	279.4	647.3	387.4	1,314.1
2005 to 2009	188.6	642.8	361.2	1,192.6
2010 to 2014	186.3	488.9	258.6	933.8
2015 to 2019	258.8	797.3	276.6	1,332.7
2020 to 2024	865.6	1,913.2	750.8	3,529.6
2025 to 2029	370.1	1,568.3	346.4	2,284.8
Total	2,148.8	6,057.8	2,381.0	10,587.6

## VALUE DISTRIBUTION BY AGE CLASS

\$NZ MILLIONS USING NINE % DISCOUNT RATE

AGE	AREA IN HECTARES	VALUE	%
0 to 4 years	7,172	13.5	10.4
5 to 9 years	2,062	10.1	7.8
10 to 14 years	1,756	14.1	10.9
15 to 19 years	1,676	12.4	9.5
20 years and over	5,526	79.8	61.4
Total	18,192	129.9	100.0

The tables on this page are sourced from Jaakko Pöyry Consulting forest valuation as at 30 June 1999.