

Fletcher Challenge Forests Limited  
**Half Year Report 2003-2004**



**FLETCHER CHALLENGE**  
**FORESTS**

## HALF YEAR REPORT

Operating earnings prior to forest revaluation for the six months ended 31 December 2003 were \$23 million, compared with \$47 million (prior to unusual items) recorded in the corresponding six months to December 2002. A challenging foreign exchange environment, high shipping costs, reduced sales from owned forest estates and loss of synergies from the cancellation of the Central North Island Forest Partnership ("CNIFP") management contract were all factors behind the decline in earnings.

Operating earnings from the processing, marketing and distribution businesses were \$19 million compared with \$21 million recorded in the corresponding six months to December 2002, and were significantly higher than the \$9 million for the six months to June 2003.

Highlights during the six month period included:

- The sale, subject to shareholder approval, of the majority of the Company's forest assets and further progress on refocusing the business
- A proposed \$0.625 per share return of capital to shareholders in March
- Expansion of the US distribution business with the acquisition of an additional 33% of The Empire Company ("Empire"), raising ownership to 67%
- Commissioning, at the Taupo mill, of a third line producing solid lineal mouldings for the US market
- Progressing the development of new international markets for existing products and new high value applications for Radiata pine.

The net loss after taxation for the six month period of \$26 million includes a write-down in the carrying value of the Company's forest crop of \$38 million (after tax), to align the value of the forest assets with the sales price announced during December 2003. Prior to the forest crop write-down, net earnings for the period were \$12 million.

### Operations

Operating revenue for the period totalled \$336 million, down 6% on the corresponding six months to December 2002. The adverse impact of the strong New Zealand dollar and reduced log sales volumes was partially offset by the consolidation of Empire from 1 November 2003. The average NZ/US dollar exchange rate during the six months to December 2003 was \$0.6036 compared to \$0.4830 for the six months to December 2002. The change in foreign exchange rates was mitigated by the Company's hedging policy, which contributed \$7 million pre tax (2002: \$12 million).

Earnings before interest, tax, depreciation and amortisations ("EBITDA") for the processing, marketing and distribution businesses for the six months to December 2003 was steady at \$26 million, compared to \$27 million for December 2002 and \$16 million for the six months to June 2003. The Australasian and Asian Consumer Solutions segment, with EBITDA of \$13 million for the current period compared to \$8 million for December 2002 and \$12 million for the six months to June 2003, benefited from the strong demand in both the domestic and Australian markets and reduced log prices. Sales prices remained stable as demand was matched by competitors redirecting supply from export markets into the domestic market.

The North American Consumer Solutions segment was impacted by the strong New Zealand dollar and weak US lumber prices. EBITDA, which includes the consolidation of Empire from 1 November 2003, was \$13 million for the current period, compared to \$19 million for December 2002. This represents a significant improvement from the EBITDA of \$4 million for the six months to June 2003. The Moulding and Better market indicator price series rose from the June 2003 low of USD900/mbf to USD1,050/mbf at December 2003, which, combined with the continued focus on efficiency and reductions in pruned log prices, assisted the New Zealand based operations to return to profitability during the period.

The Forests and Supply business contributed EBITDA of \$2 million for the six months to December 2003 compared to \$20 million for December 2002. Increases to average sales prices in US dollars during the period were not sufficient to offset the higher NZ/US dollar exchange rate, further increases to shipping rates, the reductions in sales volumes from the Group's owned estates and a loss of operating synergies following the termination of the CNIFP management contract on 30 June 2003. The sales volume reduction of 14% from the six months to December 2002 follows the sale of mature forestry rights to UBS Timber Investors on 28 March 2003.

#### Forest Crop Valuation

The carrying value of the forest crop has been revalued to an estimated net market value based upon the sale and purchase agreement for the forest assets, including the Tarawera forestry right at \$165 million. The forest crop carrying value is net of other forest assets (recorded at historic cost) included within the forest sale and direct forest sale costs of \$35 million.

#### Financial Position

Net cash from operations totalled \$16 million compared to \$29 million in December 2002, reflecting the difficult trading conditions within our forestry business and the strong NZ dollar. A \$25 million movement in net working capital related primarily to forest sale costs and the termination of the CNIFP management contract.

Net cash applied to investing activities during the period of \$23 million included the acquisition of the additional 33% interest in Empire (\$17 million).

Net debt totalled \$125 million as at 31 December 2003, including the debt held by Empire of \$17 million, representing a debt to book capitalisation ratio of 13%.

#### Forests Sale and Capital Return

On 18 December 2003, in line with the previously announced strategy to refocus the business away from forest ownership and towards the Company's processing, marketing and distribution activities, subsidiaries of the Company signed an agreement for the sale of the Group's forest assets to a consortium led by Kiwi Forests Group Limited for a price of \$725 million (including \$165 million for the Tarawera forestry right). Shareholders will vote on the forests sale and associated return of capital of \$0.625 per share at a Special Meeting of Shareholders on 20 February 2004.

The Tarawera forestry right sale was subject to a financing condition being confirmed by 31 January 2004. This condition was not met, and the forestry right will be re-marketed. If the sale is completed, the Company intends to include the proceeds of any future sale of the Tarawera forestry right in the second capital return scheduled for the second half of calendar 2004.

#### Outlook

The strategies pursued by the Company have laid a strong foundation for the Company's transition from a price-taking commodity producer to a consumer focused manufacturer of more sophisticated, high-margin wood products. Key business attributes that will drive the future of the Company include a leadership position in marketing premium wood products, effective distribution channels, world class processing plants, an established customer base and effective brands and a drive to expand the markets for its products.



Sir Dryden Spring  
Chairman



John Dell  
Chief Executive Officer

# FLETCHER CHALLENGE FORESTS

## CONDENSED FINANCIAL STATEMENTS *(Unaudited)*

Statement of Financial Performance	Six Months Dec 2003 NZ\$m	Year Ended Jun 2003 NZ\$m	Six Months Dec 2002 NZ\$m
Operating Revenue (Note 2)	336	678	359
Operating Expenses	-313	-597	-312
Unusual Items (Note 3)	-	-31	-23
Operating Earnings	23	50	24
Forest Crop Revaluation	-51	-451	-3
Funding Costs (Note 4)	-1	-18	-12
Earnings before Taxation	-29	-419	9
Taxation	4	140	-5
Earnings after Taxation	-25	-279	4
Minority Interest	-1	8	-
Net Earnings	-26	-271	4

### Per Share Information

Basic and Diluted Net Earnings per Share (cents)	-4.7	-48.6	0.7
Net Assets per Share (\$)	1.49	1.55	2.05
Number of Shares on Issue (millions of shares)	558	558	558

Statement of Financial Position	Dec 2003 NZ\$m	Jun 2003 NZ\$m	Dec 2002 NZ\$m
<b>Assets</b>			
Cash and Liquid Deposits	16	47	26
Stocks	89	66	75
Debtors	71	54	59
Forest Crop Available for Sale	-	-	124
Total Current Assets	176	167	284
Fixed Assets	317	322	326
Forest Crop	531	582	1,031
Investments	30	33	24
Goodwill	12	2	2
Deferred Taxation Asset	11	5	-
Total Assets	1,077	1,111	1,667
<b>Liabilities</b>			
Creditors	76	93	105
Total Current Liabilities	76	93	105
Term Debt	141	133	250
Provision for Deferred Taxation	-	-	138
Total Liabilities	217	226	493
<b>Equity</b>			
Group Equity	832	864	1,144
Minority Equity	28	21	30
Total Group Equity	860	885	1,174
Total Liabilities and Equity	1,077	1,111	1,667

FLETCHER CHALLENGE FORESTS  
CONDENSED FINANCIAL STATEMENTS *(Unaudited)*

	Six Months Dec 2003 NZ\$m	Year Ended Jun 2003 NZ\$m	Six Months Dec 2002 NZ\$m
<b>Statement of Cash Flows</b>			
Total Provided	322	683	358
Total Applied	-331	-637	-341
Net Cash (to)/from Operating Activities	-9	46	17
Sale of Fixed Assets and Forest Crop	-	118	1
Purchase of Fixed Assets	-6	-11	-3
Purchase of Investments and Minority Interest	-17	-12	-
Net Cash (to)/from Investing Activities	-23	95	-2
Net Debt Drawdowns/(Settlements)	3	-112	-9
Dividends Paid to Minority Shareholders	-	-2	-1
Net Cash from/(to) Financing Activities	3	-114	-10
Net Movement in Cash Held	-29	27	5
Add Opening Cash and Liquid Deposits	47	22	22
Effect of Exchange Rate Changes on Net Cash	-2	-2	-1
Closing Cash and Liquid Deposits	16	47	26
Net Earnings	-26	-271	4
Adjustments for Items not involving Cash:			
Depreciation, Amortisation, Provisions and Revaluations	52	457	33
Taxation	-6	-147	-4
Minority Interest	1	-8	-
Equity Earnings	-5	-5	-4
Loss on Disposal of Forest Assets	-	29	-
Cash Flow from Operations before Net Working Capital Movements	16	55	29
Net Working Capital Movements	-25	-9	-12
Net Cash (to)/from Operating Activities	-9	46	17
<b>Statement of Movements in Equity</b>			
Net Earnings for the period			
Parent Shareholders' Interest	-26	-271	4
Minority Interest	1	-8	-
Movement in Currency Translation Reserve - Parent Shareholders' Interest	-6	-9	-4
Total Recognised Revenues and Expenses for the period	-31	-288	-
Acquisition of Empire Minority Interest	6	-	-
Dividends and Distributions - Minority Interest	-	-2	-1
Movements in Equity for the period	-25	-290	-1
Total Group Equity at the beginning of the period			
Parent Shareholders' Interest	864	1,144	1,144
Minority Interest	21	31	31
	885	1,175	1,175
Total Group Equity at the end of the period			
Parent Shareholders' Interest	832	864	1,144
Minority Interest	28	21	30
	860	885	1,174

# FLETCHER CHALLENGE FORESTS

## CONDENSED FINANCIAL STATEMENTS *(Unaudited)*

### Forest Sale Process

On 18 December 2003, Fletcher Challenge Forests reached an agreement with Kiwi Forests Group Limited, Viking Global New Zealand Limited and OTPP New Zealand Forest Investments Limited that was expected to result in the sale of the forest assets (including the Tarawera forestry right) for \$725 million. The sale of the forest assets is subject to approval by the Company's shareholders and the receipt by the purchasers of the approval of the Overseas Investment Commission. The sale of a forestry right by Tarawera Forests Limited (for \$165 million), a subsidiary of Fletcher Challenge Forests Limited, was also subject to Kiwi Forests Group Limited arranging finance for the acquisition of that asset. On 30 January 2004 Kiwi Forests Group advised that it was not able to satisfy the financing condition in respect of the Tarawera forestry right. The Tarawera forestry right is being remarketed following the non-completion of this condition.

The consequences of the proposed forest sale on the Fletcher Challenge Forests financial statements will be significant. The carrying value of the forest crop has been revalued to an estimated net market value based upon the sale and purchase agreement for the forest assets (including the Tarawera Forestry right at \$165 million). The forest crop carrying value is net of other forest assets (recorded at historic cost) included within the forest sale and direct forest sale costs of \$35 million. Additional reorganisation costs not directly related to the forests sale will be expensed as incurred.

### Notes to the Condensed Financial Statements

1. These interim Financial Statements have been prepared in accordance with FRS 24 "Interim Financial Statements". The statements should be read in conjunction with the 2003 Annual Report of Fletcher Challenge Forests Limited. The Accounting Policies used in these Financial Statements are consistent with those used in the previously published Annual Report.

2. Operating Revenue includes Equity Earnings from Associate Companies of \$8 million (June 2003: \$14 million, December 2002: \$9 million), including dividends received of \$3 million (June 2003: \$9 million, December 2002: \$5 million). On 1 November 2003, Fletcher Challenge Forests increased its stake in The Empire Company from 33% to 67%. From this date the financial results of The Empire Company are fully consolidated.

3. Unusual Items:

	Six Months Dec 2003 NZ\$m	Year Ended Jun 2003 NZ\$m	Six Months Dec 2002 NZ\$m
Sale of Forest Assets	-	-29	-25
Other	-	-2	2
<b>Total Unusual Items</b>	-	-31	-23

4. Funding Costs for December 2003 includes a \$2 million mark to market gain on interest rate swaps (June 2003: \$4 million cost, December 2002: \$2 million cost).

## SEGMENTAL FINANCIAL & VOLUME INFORMATION

December 2003	AACS <sup>(1)</sup>	NACS <sup>(2)</sup>	Total Processing, Marketing & Distribution	Forests & Supply <sup>(3)</sup>	Other <sup>(4)</sup>	Fletcher Challenge Forests
Six months to ( <i>\$ million</i> )						
Operating Revenue	108	104	212	124	-	336
EBITDA <sup>(5)</sup>	13	13	26	2	7	35
Depreciation & Amortisation	-4	-3	-7	-5	-	-12
Operating Earnings before unusual items	9	10	19	-3	7	23
Unusual Items						-
Operating Earnings						23

June 2003	AACS <sup>(1)</sup>	NACS <sup>(2)</sup>	Total Processing, Marketing & Distribution	Forests & Supply <sup>(3)</sup>	Other <sup>(4)</sup>	Fletcher Challenge Forests
Six months to ( <i>\$ million</i> )						
Operating Revenue	106	76	182	137	-	319
EBITDA <sup>(5)</sup>	12	4	16	19	11	46
Depreciation & Amortisation	-4	-3	-7	-5	-	-12
Operating Earnings before unusual items	8	1	9	14	11	34
Unusual Items						-8
Operating Earnings						26

December 2002	AACS <sup>(1)</sup>	NACS <sup>(2)</sup>	Total Processing, Marketing & Distribution	Forests & Supply <sup>(3)</sup>	Other <sup>(4)</sup>	Fletcher Challenge Forests
Six months to ( <i>\$ million</i> )						
Operating Revenue	120	91	211	148	-	359
EBITDA <sup>(5)</sup>	8	19	27	20	12	59
Depreciation & Amortisation	-4	-2	-6	-6	-	-12
Operating Earnings before unusual items	4	17	21	14	12	47
Unusual Items						-23
Operating Earnings						24

1. AACS: Australasian and Asian Consumer Solutions.
2. NACS: North American Consumer Solutions.
3. Includes corporate assets and overheads not specific to the Processing, Marketing & Distribution businesses.
4. Other: foreign exchange gains on debt instruments not attributed to a specific business unit.
5. EBITDA: Earnings before Interest, Taxation, Depreciation, Amortisation, Forest Valuation and Unusual Items.

### Sales Volumes

(000m <sup>3</sup> )	Six months to	Dec 2003	Jun 2003	Dec 2002
Log/Residue Sales				
Total Forest Estate		907	1,013	1,055
Third Party Trading		1,179	1,225	1,205
Intra-Company Sales		-428	-387	-362
Total		1,658	1,851	1,898
Manufactured Product Sales				
Solid Lineal Mouldings		13	15	15
Laminated and Finger-Jointed Product		39	45	48
Lumber and Roundwood		282	280	291
		334	340	354
Third Party Lumber Trading		17	21	32
Total		351	361	386

## INVESTOR INFORMATION

Fletcher Challenge Forests Limited, Australian Registered Body Number 002 232 368, is a limited liability company incorporated in New Zealand.

The company reports six-monthly for the half year (to 31 December) and full year (to 30 June).

Copies of the Half Year and Annual Reports are available on the Fletcher Challenge Forests Limited website, [www.fcf.co.nz](http://www.fcf.co.nz).

**Dividend:** There is no 2004 interim dividend for Fletcher Challenge Forests shareholders. A return of capital is proposed following the conclusion of the forest sale process. The details of the return will be voted on by shareholders at the Special Meeting to be held on 20 February 2004.

### Share Registry Enquiries:

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

#### *New Zealand*

Computershare Investor Services Ltd  
Private Bag 92-119,  
Auckland 1020, New Zealand  
Level 2, 159 Hurstmere Road,  
Takapuna, North Shore City  
Telephone: 64-9-488-8777  
Facsimile: 64-9-488-8787  
E-mail: [enquiry@computershare.co.nz](mailto:enquiry@computershare.co.nz)

#### *Australia*

Computershare Investor Services Pty Ltd  
GPO Box 7045,  
Sydney, NSW 2001, Australia  
Level 3, 60 Carrington Street,  
Sydney, NSW 2000  
Telephone:  
1 300 855 080 (within Australia)  
61-3-9615-5970 (outside Australia)  
Facsimile: 61-2-8234-5050

*For ADR Holders in the U.S.*  
Citibank N.A.

Depository Receipts Services  
20th Floor, 111 Wall Street,  
New York, NY 10005, USA  
Telephone in USA or Canada:  
1 877 citi adr (1-877-248-4237) (toll free)  
E-mail: [citibank@shareholders-online.com](mailto:citibank@shareholders-online.com)  
Website: [www.citibank.com/adr](http://www.citibank.com/adr)

### Other Investor Enquiries:

Investor Relations Manager  
Fletcher Challenge Forests Limited  
Private Bag 92-036,  
Auckland 1030, New Zealand  
Telephone: 64-9-571-9800  
Facsimile: 64-9-571-9871  
E-mail: [investor-relations@fcf.co.nz](mailto:investor-relations@fcf.co.nz)

### Registered Office:

Fletcher Challenge Forests Limited  
8 Rockridge Avenue,  
Penrose, Auckland, New Zealand  
Postal Address:  
Private Bag 92-036,  
Auckland 1030, New Zealand  
Telephone: 64-9-571-9800  
Facsimile: 64-9-571-9801

### Company Websites:

[www.fcf.co.nz](http://www.fcf.co.nz)  
[www.origin.co.nz](http://www.origin.co.nz)  
[www.fcfusa.com](http://www.fcfusa.com)

### Share Listings:

	New Zealand & Australian <sup>(1)</sup> Stock Exchanges	New York <sup>(1)</sup> Stock Exchange
Ordinary shares	FFS	FFS
Preference shares	FFSPA	FFS.A

(1) The Company proposes delisting from the NYSE and ASX following completion of the current forest sale process as part of a cost restructuring programme.

**Forward Looking Statements:** There are statements included in this report which are "forward-looking statements" as defined in the U.S. Private Securities Litigation Reform Act of 1995, and they are included herein in reliance upon the safe harbours created by that Act. As forward-looking statements are predictive in nature, they are subject to a number of risks and uncertainties relating to Fletcher Challenge Forests, its operations, the markets in which it competes and other factors (some of which are beyond the control of Fletcher Challenge Forests). For details of the factors that could cause actual results to differ materially from those expressed or implied by such statements, please refer to the Fletcher Challenge Forests 2003 Annual Report (page 105), a copy of which is available on our website.