

**SUMMARY OF  
PRELIMINARY HALF YEAR REPORT ANNOUNCEMENT  
FOR DUAL NZX/ASX LISTED ISSUERS  
Fletcher Challenge Forests Limited (Consolidated)  
Half Year Ended 31 December 2003**

This report has been prepared in a manner which complies with generally accepted accounting practice and gives a true and fair view of the matters to which the report relates and is based on unaudited accounts.

	Consolidated Operating Statement		
	Current Half Year NZ\$million	Up/(Down) %	Previous Corresponding Half Year NZ\$million
Total operating revenue	336	-6.4%	359
Operating Surplus before unusual items and tax	22	-37.1%	35
Forest Crop Revaluation	(51)		(3)
Unusual items for separate disclosure <sup>(1)</sup>	0		(23)
<b>Operating Surplus/(Deficit) before tax</b>	(29)	N/A	9
Tax on operating surplus	4		(5)
Operating Surplus/(Deficit) after tax but before minority interests	(25)	N/A	4
Minority interests	(1)		-
<b>Operating Surplus/(Deficit) after tax attributable to members of Listed Issuer</b>	(26)	N/A	4
Extraordinary items after tax attributable to Members of the Listed Issuer	-		-
<b>Operating Surplus/(Deficit) and extraordinary items after tax attributable to Members of the Listed Issuer</b>	(26)	N/A	4
<b>Earnings per share (NZ cents)</b>	(4.7)		0.7
<b>Interim/Special Dividend</b>	Nil		Nil
Date Payable	N/A		
Imputation tax credit on latest dividend	N/A		

Short details of any bonus or rights issue or other item(s) of importance not previously released to the market: N/A

(1) Unusual Items include:

- There were no unusual items for the period ended 31 December 2003.

- December 2002 unusual were as follows:

A \$25 million loss relating to the write down, to estimated sale value, of cutting rights for 8,940 hectares in the Tahorakuri estates and Tauhara forest. A gain of \$2 million relating to the proposed acquisition of the Central North Island Forest assets, this relates predominately to the closing of a foreign currency contract entered into to hedge the proposed acquisition.

## PRELIMINARY HALF YEAR REPORT ANNOUNCEMENT

### Fletcher Challenge Forests Limited (Consolidated)

Half Year Ended 31 December 2003

(referred to in this Report as the 'Current Half Year')

Preliminary Half Year report on consolidated results (including the results for the previous corresponding Half Year) in accordance with Listing Rule 10.4.2.

This report has been prepared in a manner which complies with generally accepted accounting practice and gives a true and fair view of the matters to which the report relates and is based on unaudited accounts.

The Listed Issuer has a formally constituted Audit Committee of the Board of Directors.

#### 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.

#### FLETCHER CHALLENGE FORESTS LIMITED CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE

#### CONSOLIDATED OPERATING STATEMENT

	Current Half Year NZ\$million	Up/(Down) %	Previous Corresponding Half Year NZ\$million
<b>1 OPERATING REVENUE</b>			
a Sales Revenue	327	(6.6%)	350
b Other Revenue <sup>(1)</sup>	9		9
c Total Operating Revenue	336		359
<b>2 OPERATING SURPLUS BEFORE UNUSUAL ITEMS AND TAXATION</b>	22	(37.1%)	35
Forest Crop Revaluation <sup>(2)</sup>	(51)		(3)
b Unusual Items	-		(23)
c <b>OPERATING SURPLUS/(DEFICIT) BEFORE TAXATION</b>	(29)	N/A	9
d Taxation on Operating Profit	4		(5)
e Operating Surplus/(Deficit) after Taxation but before Minority Interest	(25)		4
f Minority Interest	(1)		-
g Equity Earnings [detail in Item 19 below] <sup>(1)</sup>	-		-
h <b>OPERATING SURPLUS/(DEFICIT) AFTER TAXATION ATTRIBUTABLE TO MEMBERS OF LISTED ISSUER</b>	(26)	N/A	4
<b>3 a Extraordinary Items after Taxation [detail in Item 6(a) below]</b>	-		-
b Less Minority Interest	-		-
c Extraordinary Items after Taxation Attributable to Members of the Listed Issuer	-		-
<b>4 a TOTAL OPERATING SURPLUS/(DEFICIT) AND EXTRAORDINARY ITEMS AFTER TAXATION [Items 2(e) + 2(g) + 3(a) above]</b>	(25)		4
b Operating Surplus/(Deficit) and Extraordinary Items after Taxation Attributable to Minority Interest [Items 2(f)+3(b) above]	(1)		-
c <b>OPERATING SURPLUS/(DEFICIT) AND EXTRAORDINARY ITEMS AFTER TAXATION ATTRIBUTABLE TO MEMBERS OF THE LISTED ISSUER [Items 2(h) + 3(c) above]</b>	(26)	N/A	4

(1) In compliance with FRS-38 Accounting for Investments in Associates, equity earnings and dividends from Associates (2003: \$8 million, 2002: \$9 million) have been recognised as a component of Operating Revenue.

(2) 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.

5 **DETAILS OF SPECIFIC RECEIPTS/OUTLAYS,  
REVENUES/EXPENSES FOR THE CURRENT HALF YEAR**

CONSOLIDATED	
Current Half Year NZ\$million	Previous Corresponding Half Year NZ\$million
a	1
b	-
c	-
d	12
e	-
f	12
g	-

1. December 2003 includes a \$2 million mark to market gain on interest rate swaps (December 2002: \$2 million cost).

6 a **UNUSUAL AND EXTRAORDINARY ITEMS OF THE FLETCHER CHALLENGE FORESTS GROUP**  
NIL

b **COMMENTS BY DIRECTORS**

i **Material factors affecting the revenues and expenses of the Fletcher Challenge Forests Group for the Current Half Year**

Refer press release as attached

ii **Significant trends or events since end of Current Half Year**

Refer press release as attached

iii **Changes in accounting policies since last Annual and/or Full Year to be disclosed**

There have been no changes in accounting policy since 30 June 2003.

7 **NET EARNINGS PER SHARE (EPS)**

Earnings in cents per share based on the weighted average number of shares on issue during the period and operating profit after taxation attributable to members of Listed Issuer [Item 2(h) above] after deducting them from any provision for preference dividends.

**Basic and Diluted EPS**

CONSOLIDATED	
Current Half Year NZ Cents	Previous Corresponding Half Year NZ Cents
(4.7)	0.7

8 (a) **MATERIAL ACQUISITIONS OF SUBSIDIARIES**

On 1 November 2003 Fletcher Challenge Forests increased its holdings in The Empire Company from 33% to 67%.

(i) Name of subsidiary

The Empire Company

(ii) Contribution to surplus / (deficit) and extraordinary items after tax<sup>(1)</sup>

\$3 million

(iii) Date to which such contribution has been calculated<sup>(1)</sup>

1 November 2003

(iv) Operating surplus/(deficit) and extraordinary items after tax of the subsidiary for the previous corresponding half year

N/A

(1) Includes equity earnings of \$1 million up to 31 October 2003

(b) **MATERIAL DISPOSALS OF SUBSIDIARIES**

NIL

9 **REPORTS FOR INDUSTRY AND GEOGRAPHICAL SEGMENTS**

Refer segmental information summary attached

**FLETCHER CHALLENGE FORESTS LIMITED  
CONSOLIDATED STATEMENT OF FINANCIAL  
POSITION**

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**ASSETS**

Current Assets:

Cash and Liquid Deposits

Stocks

Debtors

Forest Crop Available for sale

Total Current Assets

Non Current Assets:

Fixed Assets (net)

Forest Crop

Investments

Goodwill

Deferred Taxation Asset

Total Non Current Assets

**Total Group Assets**

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**LIABILITIES**

Current Liabilities:

Creditors

Total Current Liabilities

Non Current Liabilities:

Term Debt

Provision for Deferred Taxation

Total Non Current Liabilities

**Total Group Liabilities**

**Group Net Assets**

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**EQUITY**

Reported Capital

Reserves (Net Currency Translation)

Accumulated Losses

Total Reserves

Group Equity

Minority Equity

**Total Group Equity**

	At end of Current Half Year NZ\$million	As shown in last Full Year NZ\$million	At end of Previous Half Year NZ\$million
	16	47	26
	89	66	75
	71	54	59
	-	-	124
	176	167	284
	317	322	326
	531	582	1,031
	30	33	24
	12	2	2
	11	5	-
	901	944	1,383
	1,077	1,111	1,667
	76	93	105
	76	93	105
	141	133	250
	-	-	138
	141	133	388
	217	226	493
	860	885	1,174
	1,443	1,443	1,443
	682	688	693
	(1,293)	(1,267)	(992)
	(611)	(579)	(299)
	832	864	1,144
	28	21	30
	860	885	1,174

The pending sale of the forest assets, if approved by shareholders, will enable the Company to return surplus capital to shareholders by way of a capital reduction.

**FLETCHER CHALLENGE FORESTS LIMITED**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**

	Current Half Year NZ\$million	Previous Corresponding Half Year NZ\$million
<b>13 CASH WAS PROVIDED:</b>		
<b>FROM OPERATING ACTIVITIES</b>		
Receipts from Customers	318	353
Dividends Received	3	5
Interest Received	1	-
Total Provided	322	358
Payments to Suppliers, Employees and Other	325	318
Interest Paid	4	14
Income Tax Paid	2	9
Total Applied	331	341
<b>Net Cash (to)/from Operating Activities</b>	<b>(9)</b>	<b>17</b>
<b>14 FROM INVESTING ACTIVITIES</b>		
Sale of Fixed Assets	-	1
Total Provided	-	1
Purchase of Fixed Assets	6	3
Purchase of Minority Interest	17	-
Total Applied	23	3
<b>Net Cash to Investing Activities</b>	<b>(23)</b>	<b>(2)</b>
<b>15 FROM FINANCING ACTIVITIES</b>		
Long Term Debt Drawdowns	20	-
Total Provided	20	-
Term Debt Settlements	17	9
Dividends Paid to Minority Shareholders	-	1
Total Applied	17	10
<b>Net Cash from/(to) Financing Activities</b>	<b>3</b>	<b>(10)</b>
<b>16 NET MOVEMENT IN CASH HELD</b>	<b>(29)</b>	<b>5</b>
Add Opening Cash and Liquid Deposits	47	22
Effect of Exchange Rate Changes on Net Cash	(2)	(1)
<b>Closing Cash and Liquid Deposits (see Reconciliation of Cash)</b>	<b>16</b>	<b>26</b>
<b>17 NON-CASH FINANCING AND INVESTING ACTIVITIES</b>		
NIL		
<b>18 RECONCILIATION OF CASH</b>		
For the purposes of the above Statement of Cash Flows, Cash includes Cash and Liquid Deposits. Cash at the end of the Half Year as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:		
Cash on Hand and at Bank	16	26
<b>Total = Cash at End of Half Year [Item 16 above]</b>	<b>16</b>	<b>26</b>

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## EQUITY ACCOUNTED ASSOCIATES AND OTHER MATERIAL INTERESTS

Information attributable to the Fletcher Challenge Forests Group's share of investments in associates and other material interests is disclosed by way of separate note below.

### (i) FLETCHER CHALLENGE FORESTS GROUP'S SHARE OF RESULTS OF ASSOCIATES

	EQUITY EARNINGS	
	Current	Previous
	Half Year	Corresponding Half Year
	NZ\$million	NZ\$million
a OPERATING PROFIT/(DEFICIT) BEFORE TAXATION	9	10
b Taxation	(1)	(1)
c OPERATING PROFIT/(DEFICIT) AFTER TAXATION	8	9
d (i) Extraordinary items (gross)	-	-
(ii) Taxation	-	-
(iii) Extraordinary items (net)	-	-
e OPERATING PROFIT/(DEFICIT) AND EXTRAORDINARY ITEMS AFTER TAXATION	8	9
f Dividends and Distributions paid to Fletcher Challenge Forests Group	(3)	(5)
g NET ADDITION/(REDUCTION) TO EQUITY CARRYING VALUE OF INVESTMENTS FROM CURRENT PROFITS	5	4

### (ii) MATERIAL INTERESTS IN ASSOCIATES

- a Fletcher Challenge Forests Group has a material interest (from Fletcher Challenge Forests Group's viewpoint) in the following associates:

Name of Associates	Percentage of ownership interest (ordinary shares, units, etc) held at end of Half Year		Contribution to Operating Profit/(Deficit) and Extraordinary Items after Taxation	
	Current Half Year	Previous Corresponding Half Year	Current Half Year NZ\$million	Previous Corresponding Half Year NZ\$million
<b>Equity Accounted Associates</b>			<i>Equity Accounted</i>	
American Wood Moulding LLC	50.0%	50.0%	4	3
AWM Mexico	50.0%	-	-	-
The Empire Company	-(1)	33.0%	1	1
			5	4
<b>Other Material Interests</b>				
NIL				

(1) 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 were no longer Equity accounted.

### b INVESTMENTS IN ASSOCIATES

Carrying Value of Investments in Associates (CV):

Equity Investments <sup>(1)</sup>

Advance to American Wood Moulding LLC

Carrying Value of Investments

	Current	Previous
	Half Year	Corresponding Half Year
	NZ\$million	NZ\$million
	21	24
	9	-
	30	24

(1) On 1 November 2003 Fletcher Challenge Forests increased its stake in The Empire Company from 33% to 67%. From this date The Empire Company became a fully consolidated Subsidiary.

20 **ISSUED AND QUOTED SECURITIES AT END OF CURRENT HALF YEAR**

**Reported Capital:**

Reported Capital at the beginning of the period  
Movement during the period

**Reported Capital**

	Current Half Year NZ\$million	Previous Corresponding Half Year NZ\$million
	1,443	1,443
	-	-
	1,443	1,443

The pending sale of the forest assets, if approved by shareholders, will enable the Company to return surplus capital to shareholders by way of a capital reduction.

**Issued and Quoted Capital:**

Reported Capital at 30 June 2003 includes 185,913,422 Fully Paid Fletcher Challenge Forests Shares and 371,809,026 Fully Paid Fletcher Challenge Forests Preference Shares.

**Movement in Shares Issued:**

**Fletcher Challenge Forests Ordinary Shares**

Number of Shares at the beginning of the period  
Share Consolidation <sup>(1)</sup>

**Fletcher Challenge Forests Preference Shares**

Number of Shares at the beginning of the period  
Share Consolidation <sup>(1)</sup>

	Current Half Year	Previous Corresponding Half Year
	185,913,422	922,207,133
	-	(736,293,711)
	185,913,422	185,913,422
	371,809,026	1,859,015,794
	-	(1,487,206,768)
	371,809,026	371,809,026

(1) During November 2002 the Fletcher Challenge Forests Ordinary Shares and Preference Shares were consolidated on a 5:1 basis. Following the share consolidation, the Preference Shares retained their preference rights.

21 **DIVIDENDS**

NIL

22 **INCOME TAXATION**

Earnings before Taxation:  
Taxation at 33 cents per dollar  
Adjusted for:  
    Forest Sale Costs  
    Other Permanent Differences  
Taxation (Benefit) / Expense

	Current Half Year NZ\$million	Previous Corresponding Half Year NZ\$million
	(29)	9
	(10)	3
	4	-
	2	2
	(4)	5

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This Half Year Report was approved by a resolution of Directors  
on 12 February 2004

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P M Gillard  
Company Secretary

12 February 2004

## Segmental Information Summary

Fletcher Challenge Forests is a New Zealand-based Group, which owns and converts forest resources into valued products for customers in world markets. It has strategic business units reflecting its operations in Forests and Supply, and in Processing and Distribution.

### Forests and Supply

- a leader in solid wood forestry. The segment manages and markets logs from the Group's forest estate in New Zealand. This segment also sources logs and chips from third parties for sale to owned and managed sawmills and/or to external customers in New Zealand and Asia.

### Processing & Distribution

- represented by two strategic business units, Australasian and Asian Consumer Solutions and North American Consumer Solutions. Each strategic business unit has a distinct market and product focus:

(i) Australasian & Asian Consumer Solutions – AACS supplies structural lumber, plywood and treated products to the residential and light commercial building sectors in New Zealand and Australia, and treated posts and poles to the rural, viticulture and infrastructure sectors in New Zealand. In addition, AACS supplies manufacturing grade lumber to the industrial sector in New Zealand and Asia and appearance grade lumber to Asian furniture manufacturers. AACS operates four processing sites: the Kawerau Sawmill and Remanufacturing Plant, the Rainbow Mountain Sawmill, the Mount Maunganui Plywood Mill and Ramsey Roundwood. All of these sites are located in the central North Island in New Zealand.

(ii) North American Consumer Solutions – NACS takes clear wood from pruned logs through to high value moulding and millwork uses in the United States. Radiata pine is a competitive substitute in many applications for diminishing United States supplies of Ponderosa pine. NACS has strong supplier relationships with the two largest home improvement chains in the United States: The Home Depot, through American Wood Moulding, in which the Group holds a 50% interest, and Lowe's, through a 67% shareholding in The Empire Company. The Home Depot, Lowe's and other major United States retailers are demanding environmentally certified wood products from their suppliers, and NACS' access to an environmentally certified (Forests Stewardship Council) resource, together with its integrated supply chain, confers a significant competitive advantage. NACS operates two plants in New Zealand, the Taupo Sawmill and the Taupo Mouldings Plant, and has a sales office in the United States.

Inter-segmental pricing is carried out on a commercial and arm's length basis.

Segmental Information Summary

December 2003 (Six months ended)	Forests & Supply <sup>(1)</sup>	Processing, Marketing & Distribution			Other <sup>(4)</sup>	Fletcher Challenge Forests
	NZ\$m	AACS <sup>(2)</sup> NZ\$m	NACS <sup>(3)</sup> NZ\$m	Total NZ\$m	NZ\$m	NZ\$m
<b>Operating Revenue</b>	124	108	104	212		<b>336</b>
<b>Earnings before Interest, Taxation, Depreciation, Forest Valuation and Unusual Items</b>	2	13	13	26	7	<b>35</b>
Depreciation & Amortisation	(5)	(4)	(3)	(7)		<b>(12)</b>
<b>Operating Earnings before Unusual Items</b>	(3)	9	10	19	7	<b>23</b>
Unusual Items						-
<b>Operating Earnings</b>	(3)	9	10	19	7	<b>23</b>
<b>Total Assets</b>	792	125	160	285		<b>1,077</b>
<b>Capital Expenditure</b>	1	1	4	5		<b>6</b>

	North America	Australia	New Zealand	Asia	Total
<b>Total Operating Revenue by Destination</b>	96	18	136	86	<b>336</b>
<b>Total Operating Earnings</b>	12		11		<b>23</b>
<b>Total Assets</b>	104		973		<b>1,077</b>

(1) Includes corporate assets and overheads not specific to the Processing, Marketing and Distribution businesses.

(2) AACS - Australasian and Asian Consumer Solutions.

(3) NACS - North American Consumer Solutions.

(4) Relates to foreign exchange gains on net foreign denominated debt instruments not attributed to a specific business unit.

June 2003 (12 months ended)	Forests & Supply <sup>(1)</sup>	Processing, Marketing & Distribution			Other <sup>(4)</sup>	Fletcher Challenge Forests
	NZ\$m	AACS <sup>(2)</sup> NZ\$m	NACS <sup>(3)</sup> NZ\$m	Total NZ\$m	NZ\$m	NZ\$m
<b>Operating Revenue</b>	285	226	167	393		<b>678</b>
<b>Earnings before Interest, Taxation, Depreciation, Forest Valuation and Unusual Items</b>	39	20	23	43	23	<b>105</b>
Depreciation & Amortisation	(11)	(8)	(5)	(13)		<b>(24)</b>
<b>Operating Earnings before Unusual Items</b>	28	12	18	30	23	<b>81</b>
Unusual Items	(31)					<b>(31)</b>
<b>Operating Earnings</b>	(3)	12	18	30	23	<b>50</b>
<b>Total Assets</b>	874	128	109	237		<b>1,111</b>
<b>Capital Expenditure</b>	5	3	3	6		<b>11</b>

	North America	Australia	New Zealand	Asia	Total
<b>Total Operating Revenue by Destination</b>	143	37	303	195	<b>678</b>
<b>Total Operating Earnings</b>	11		39		<b>50</b>
<b>Total Assets</b>	55		1,056		<b>1,111</b>

(1) Includes corporate assets and overheads not specific to the Processing, Marketing and Distribution businesses.

(2) AACS - Australasian and Asian Consumer Solutions.

(3) NACS - North American Consumer Solutions.

(4) Relates to foreign exchange gains on net foreign denominated debt instruments not attributed to a specific business unit.

December 2002 (Six months ended)	Forests & Supply <sup>(1)</sup>	Processing, Marketing & Distribution			Other <sup>(4)</sup>	Fletcher Challenge Forests
	NZ\$m	AACS <sup>(2)</sup> NZ\$m	NACS <sup>(3)</sup> NZ\$m	Total NZ\$m	NZ\$m	NZ\$m
<b>Operating Revenue</b>	148	120	91	211		<b>359</b>
<b>Earnings before Interest, Taxation, Depreciation,</b>						
<b>Forest Valuation and Unusual Items</b>	20	8	19	27	12	<b>59</b>
Depreciation & Amortisation	(6)	(4)	(2)	(6)		<b>(12)</b>
<b>Operating Earnings before Unusual Items</b>	14	4	17	21	12	<b>47</b>
Unusual Items	(23)					<b>(23)</b>
<b>Operating Earnings</b>	(9)	4	17	21	12	<b>24</b>
<b>Total Assets</b>	1,424	129	114	243		<b>1,667</b>
<b>Capital Expenditure</b>	2	1		1		<b>3</b>
		<b>North America</b>	<b>Australia</b>	<b>New Zealand</b>	<b>Asia</b>	<b>Total</b>
<b>Total Operating Revenue by Destination</b>		77	18	161	103	<b>359</b>
<b>Total Operating Earnings</b>		8		16		<b>24</b>
<b>Total Assets</b>		53		1,614		<b>1,667</b>

(1) Includes corporate assets and overheads not specific to the Processing, Marketing and Distribution businesses.

(2) AACS - Australasian and Asian Consumer Solutions.

(3) NACS - North American Consumer Solutions.

(4) Relates to foreign exchange gains on net foreign denominated debt instruments not attributed to a specific business unit.