



**FLETCHER CHALLENGE
FORESTS**

interim report

INTERIM

2001-2002 Interim results for Fletcher Challenge Forests Limited

LETTER

Letter to Shareholders

Dear Shareholder

Fletcher Challenge Forests' operating results recovered strongly in the six months to December 2001.

Earnings before interest and tax (EBIT), before unusual items, were \$41 million (including an increase in the value of the company's forest estate of \$17 million), compared to \$8 million in the six months to June 2001⁽¹⁾.

This turnaround in operating performance showed the benefit of management's strong focus on reducing the company's costs of doing business and was achieved despite a weak global economic environment.

It reflected a modest improvement in log and manufactured product prices assisted by higher sales. Manufactured product and forest estate log sales volumes increased by 10% and 8% respectively, compared to the previous six months.

The sale process for the Central North Island Forest Partnership (in Receivership) ("CNIFP") has not yet been concluded by the Receivers. The Directors have reviewed the carrying value of the subordinated loan and have concluded that if a sale of the CNIFP had been concluded as at 31 December 2001, the proceeds of the sale would not have

exceeded the value of the senior bank debt. The Directors therefore consider it prudent to write off the balance of the value of the subordinated loan of \$349 million (US\$145 million).

Net earnings before unusual items were \$21 million. Unusual items, principally the write-off of the company's subordinated loan to the CNIFP, totalled \$323 million after tax, resulting in a net loss of \$302 million.

Operations

Forest and Logs

Divisional EBIT, before unusual items and crop revaluation, was \$19 million, compared to \$5 million in the six months to June. A continued emphasis on lowering costs coupled with improved demand contributed to this good performance.

While total sales revenue fell 8% compared to the previous six months, this was the result of lower trading volumes sourced from third party estates. Volume from our own forests increased 8% compared to the previous six months.

Improving demand underpinned the performance of the business. Strength in the Korean construction sector saw a 36% increase in

sales to that market, by volume, including CNIFP sales, compared to the previous six months. December quarter NZ dollar fob prices into this market rose 15% over the June quarter, the result of both an improvement in delivered prices and lower shipping costs.

The market in China is also showing rapid growth from a low base.

Japan, however, continued to decline in relative importance with sales volumes down 29% and prices which are now at or in some cases below the levels paid in the competing Asian markets.

On the domestic front, log demand was underpinned by a strengthening residential construction sector in both New Zealand and Australia.

Processing and Distribution

EBIT was \$5 million for the period, up from \$3 million in the six months to June, despite having to absorb a \$2 million spike in electricity charges in this period. Conditions in the Japanese engineered wood product market remained difficult resulting in a loss of \$3 million in our Japanese business unit.

A strong recovery in Australian house construction and steady demand from within New Zealand supported processing and distribution revenues of \$196 million for the period. This represented a 16% increase compared to the six months to June. Processed product volumes rose 10%.

An increase in sales of high value products to North America also contributed to the higher

revenue compared to the previous period. The recessionary conditions experienced in the USA over the December quarter impacted prices somewhat, but volumes have remained steady and our key customers in the USA have reported continued strong consumer demand.

Forest Valuation

In June 2001 the company adopted a new accounting policy for its forest estate, which requires the estate to be revalued each balance date applying market prices. The gain or loss in value is taken to earnings.

During the period to December the value of our forest estate rose 2%, or \$17 million, to \$1.14 billion. The after tax increment in value was \$10 million, which has been taken to earnings for the period.

Our forest estate is still maturing and the volume being harvested is less than the biological growth on all remaining areas. The increase in value due to net biological growth was partially offset by slightly lower 12 quarter index prices.

Balance Sheet and Cash Flow

The company's financial position improved during the period with a \$34 million reduction in net debt, from \$323 million at June to \$289 million at December 2001. Net cash flow from operations, before working capital movements, was \$22 million compared to \$1 million in the previous six months⁽¹⁾. Investing activities contributed a net \$13 million from the sale of assets.

CNIFP (In Receivership)

The CNIFP, in which the company has an economic interest as subordinated debt holder, has continued to carry on normal operations under the control of the Receivers appointed last year. Fletcher Challenge Forests is managing the estate under the existing management contract.

The Receivers are yet to conclude the sale process initiated in August 2001. Potential outcomes include an outright sale to one of the current bidders (which include Fletcher Challenge Forests), or rejection of all current bids and a continued period of operation in receivership.

We view the CNIFP forests as a desirable adjunct to our own forests, but not as something that is critical to our operations. We continue to have an interest in acquiring this asset if it can be acquired on a value-creating basis.

CITIC Litigation

In November 2001, a hearing was held in the High Court to determine whether CITIC or the Receivers owned the claims made against Fletcher Challenge Forests by CITIC in relation to the CNIFP. The Court reserved its decision, which is expected shortly.

Business Development

We are continuing to build our marketing capability in new markets such as China, to complement our traditional strength in markets like Japan and Korea. The rapid growth in penetration of the China market, where New Zealand export volumes have increased nine-

fold in three years, is testimony to the potential value in this new arena.

In parallel, we are working with other major participants in the New Zealand forestry industry to build marketing and customer support capabilities in the growth markets in Asia, and to ensure that the costs of doing business are minimised by servicing markets on a collaborative basis, whenever appropriate.

Our processing operations continue to innovate with the introduction of new add-value products and, during the last six months, we commenced full production on our "clear boards" programme into the USA retail market, which has opened up an important new revenue stream.

We are committed to achieving further efficiencies in all our operations and see particular opportunities in forest management, logistics, shipping and export marketing. These will require a co-operative approach across the local industry.

Kyoto Protocol

The Government is likely to ratify the Kyoto Protocol in September this year. Government has signalled a gradual phased approach to implementation, and that it will be addressing the problems of businesses whose competitiveness will be affected by the Protocol.

We are actively working with Government in the consultative process to agree on mechanisms to avoid negative impacts on our business.

Dividend

No dividend has been declared.

Outlook

With the exception of Japan, which remains in recession, the market outlook for the second half of the financial year is generally positive.

In Korea, our major market for logs, construction activity is continuing to strengthen, log prices have been firming in recent months and forward activity indicators are good.

In the USA, demand and prices are lifting again after some softness in the last quarter due to the weakness in that economy, and recent housing and consumer confidence data are encouraging.

Australasian markets are showing strength assisted by healthy levels of residential construction activity in both New Zealand and Australia.

The developing markets of China and India are also showing positive momentum in both volume and prices, with China being particularly strong supported by high GDP growth and restrictions on domestic logging.

We expect the positive trend in operating costs to be maintained in the current half year with the result that, in the absence of unexpected adverse events, the company's operating earnings for the half year to June 2002 should show continued improvement relative to the first half.



Terry McFadgen
Chief Executive
26 February 2002

(1) Reconciliation of Key Comparatives

At 30 June 2001 the company changed its forest accounting policy. This table shows a reconciliation of earnings and cash flow to the financial statements, incorporating both the adjustments to the prior period to align with the new policy, and unusual items.

(NZ\$ million) six months to	Operating Earnings before Interest and Tax		Cash Flow from Operations before Working Capital	
	Dec 01	Jun 01	Dec 01	Jun 01
Per Financial Statements	-324	-450	22	23
Plus Forest Crop Growth Revaluation	17	-	-	-
Add back Unusual Items net of Accrued Interest	348	418	-	28
Plus Forest Accounting Policy Adjustments				
Depletions and Forest Management	-	40	-	-50
Adjusted Comparatives	41	8	22	1

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 2001 Annual Review (page 23), a copy of which is available on our website.

CONDENSED FINANCIAL STATEMENTS

(Unaudited)

STATEMENT OF FINANCIAL PERFORMANCE

	Six Months Dec 2001 US\$ million	Six Months Dec 2001 NZ\$ million	Year Ended Jun 2001 NZ\$ million	Six Months Dec 2000 NZ\$ million
Operating Revenue	132	317	648	348
Operating Expenses	-267	-641	-1,680	-930
Operating Earnings ^{1,2}	-135	-324	-1,032	-582
Forest Crop Revaluation	7	17	-625	-
Funding Costs	-4	-10	-	-
Earnings before Taxation	-132	-317	-1,657	-582
Taxation	5	13	285	75
Earnings after Taxation	-127	-304	-1,372	-507
Minority Interest	-1	-2	9	-
Equity Earnings	2	4	-14	-11
Net Earnings from Continuing Operations	-126	-302	-1,377	-518
Earnings from Discontinued Operations before Taxation	-	-	396	283
Gain on Disposal of Discontinued Operations before Taxation	-	-	1,126	440
Taxation from Discontinued Operations	-	-	-252	-183
Net Earnings	-126	-302	-107	22

PER SHARE INFORMATION

Basic Net Earnings per Fletcher Challenge Forests Share (cents)	-4.5	-10.9	-73.9	-48.7
Diluted Net Earnings per Fletcher Challenge Forests Share (cents)	-4.5	-10.9	-73.9	-48.7
Share Weighting used for				
- Basic Net Earnings per Share (million)	2,781	2,781	1,864	1,063
- Diluted Net Earnings per Share (million)	2,781	2,781	1,864	1,063

1. Included within Operating Earnings are the following Unusual Items:

- Permanent Impairment for December 2001 relating to the investment in and advances to the Central North Island Forest Partnership of \$349 million (June 2001: \$768 million; December 2000: \$574 million) and in June 2001 the impairment of the New Zealand forest estate of \$207 million and the investment in Tasman KB of \$1 million.
- Other Gains for December 2001 relating to the part recovery of a debtor written off of \$1 million relating to the sale of the Chilean forestry operations. Other Gains/(Losses) in June 2001 and December 2000 relating to a provision established to cover the costs of defending the claims of CITIC New Zealand Limited of \$5 million and in June 2001 the write off of a debtor of \$3 million related to the sale of the Chilean forestry operations.
- Gain on Disposal of Affiliates for June 2001 relating to the gain on sale of biotechnology and South American assets of \$26 million.
- Restructuring and Separation Costs for June 2001 of \$63 million (December 2000: \$24 million) relating to costs associated with the separation of the Fletcher Challenge Forests Division from the Fletcher Challenge targeted share structure.

2. Included within Operating Earnings for December 2001 is a net gain on disposal of fixed assets of \$2 million.

CONDENSED FINANCIAL STATEMENTS

(Unaudited)

STATEMENT OF MOVEMENTS IN EQUITY

	Six Months Dec 2001 US\$ million	Six Months Dec 2001 NZ\$ million	Year Ended Jun 2001 NZ\$ million	Six Months Dec 2000 NZ\$ million
Total Equity at the beginning of the period	594	1,429	9,431	9,431
Opening adjustment on adoption of SFAS 133	-	-	-169	-169
	594	1,429	9,262	9,262
Net Earnings	-126	-302	-107	22
Revaluation of Investments	-	-	-187	-272
Net Movement in Cash Flow Hedges	-	-	-18	-32
Reversal of Revaluation Reserve upon Disposal of Investment	-	-	-316	-96
Movement in Currency Translation Reserve	-1	-2	745	363
Total Recognised Revenues and Expenses for the period	-127	-304	117	-15
Disposal of Fletcher Challenge Building, Energy and Paper	-	-	-7,706	-3,768
Movement in Minority Equity	1	2	59	67
Movement in Reported Capital	-	-	553	449
Movement in Capital Funds	-	-	-766	-64
Dividends and Distributions	-	-	-90	-78
Total Equity at the end of the period	468	1,127	1,429	5,853

CONDENSED FINANCIAL STATEMENTS

(Unaudited)

STATEMENT OF FINANCIAL POSITION

	As at Dec 2001 US\$ million	As at Dec 2001 NZ\$ million	As at Jun 2001 NZ\$ million	As at Dec 2000 NZ\$ million
ASSETS				
Cash and Liquid Deposits	19	46	51	19
Stocks	30	72	77	83
Debtors	20	48	50	65
Current Assets – Discontinued Operations	–	–	56	1,146
Total Current Assets	69	166	234	1,313
Fixed Assets	617	1,485	1,481	2,146
Investments	9	22	378	584
Term Assets – Discontinued Operations	–	–	–	4,317
Total Assets	695	1,673	2,093	8,360
LIABILITIES				
Short Term Loans	–	–	–	8
Creditors	37	90	108	85
Provision for Current Taxation	–	–	–	1
Current Liabilities – Discontinued Operations	–	–	56	1,128
Total Current Liabilities	37	90	164	1,222
Term Debt	139	335	374	512
Provision for Deferred Taxation	51	121	126	282
Term Liabilities – Discontinued Operations	–	–	–	491
Total Liabilities	227	546	664	2,507
Equity				
Reported Capital	600	1,443	1,443	2,434
Accumulated (Losses)/Earnings	-145	-348	-44	2,678
Capital Funds	–	–	–	702
Equity and Capital Funds	455	1,095	1,399	5,814
Minority Equity	13	32	30	39
Total Equity and Capital Funds	468	1,127	1,429	5,853
Total Liabilities and Equity	695	1,673	2,093	8,360

CONDENSED FINANCIAL STATEMENTS

(Unaudited)

STATEMENT OF CASH FLOWS

	Six Months Dec 2001 US\$ million	Six Months Dec 2001 NZ\$ million	Year Ended Jun 2001 NZ\$ million	Six Months Dec 2000 NZ\$ million
Cash Provided from Operating Activities	133	319	652	335
Cash Applied to Operating Activities	-127	-305	-641	-344
	6	14	11	-9
Operating Cash from Discontinued Operations	-	-	61	36
Net Cash from Operating Activities	6	14	72	27
Sale of Fixed Assets	1	3	80	-
Sale of Investments	1	3	-	-
Net Sale/(Purchase) of Taxation Benefits	4	9	33	-14
Interest Paid Capitalised in Fixed Assets	-	-	-111	-69
Purchase of Fixed Assets	-1	-2	-32	-18
Purchase of Investments	-	-	-12	-9
Net Cash from Investing Activities	5	13	-42	-110
Net Debt Settlements	-12	-30	-485	-318
Issue of Shares	-	-	504	414
Dividends Paid to Minority Shareholders	-	-	-4	-
Net Cash from Financing Activities	-12	-30	15	96
Net Movement in Cash Held	-1	-3	45	13
Net Cash from Discontinued Operations	-20	-47	-1,046	-951
Net Movement in Cash Held	-21	-50	-1,001	-938
Add Opening Cash and Liquid Deposits				
- Continuing Operations	21	51	6	6
- Discontinued Operations	20	47	1,047	1,047
Effect of Exchange Rate Changes on Net Cash				
- Continuing Operations	-1	-2	-	-
- Discontinued Operations	-	-	46	43
Closing Cash and Liquid Deposits				
- Continuing Operations	19	46	51	19
- Discontinued Operations	-	-	47	139
Net Earnings	-126	-302	-1,377	-518
Adjustment for Items not involving Cash:				
Depreciation, Depletions, Amortisation, Provisions and Revaluations	142	342	1,729	631
Interest Capitalised from Discontinued Operations	-	-	61	36
Taxation	-5	-14	-288	-79
Minority Interest in Earnings of Subsidiaries	1	2	-9	-
Equity Earnings	-2	-4	14	11
Less Gain on Disposal of Affiliates and Fixed Assets	-1	-2	-26	-
Cash Flow from Operations before Net Working Capital Movements	9	22	104	81
Net Working Capital Movements	-3	-8	-32	-54
Net Cash from Operating Activities	6	14	72	27

These Interim Financial Statements have been prepared in accordance with FRS 24 "Interim Financial Statements". The statements should be read in conjunction with the 2001 Financial & Operating Report of Fletcher Challenge Forests Limited. The accounting policies used in these Financial Statements are consistent with those used in the previously published Annual Financial & Operating Report.

The US dollar amounts have been included solely for convenience, and are converted from NZ dollars at a rate of US\$0.4156 : NZ\$1.00.

CONDENSED FINANCIAL STATEMENTS

(Unaudited)

1. FOREST CROP VALUATION

Log Prices

The following table summarises the delivered prices (at wharf/mill) adopted for the valuation:

	Dec 01		Jun 01 ²	
	12 Qtrs NZ\$/m ³	Dec Qtr ¹ NZ\$/m ³	12 Qtrs NZ\$/m ³	June Qtr ¹ NZ\$/m ³
Radiata				
Pruned	170	182	172	163
Structural	104	101	104	103
Utility	97	93	98	96
Industrial	69	72	68	61
Pulp	55	54	56	54
Other Species	97	89	99	90
Weighted Average Price	98	99	99	95

(1) Included in the 12 Quarter series

(2) Comparatives incorporate a change to the cartage assumptions

Change in Value

The main elements of the change in value this period were:

	NZ\$ million
Crop valuation at 30 June 2001	1,123
Growth	66
Harvesting removals	-38
Movement in price index	-14
Other changes	3
Crop valuation at 31 December 2001	1,140

2. CONTINGENT LIABILITIES

- Contingent liabilities relating to CITIC New Zealand Limited (in Receivership), Precision Lumber Corporation and the Fletcher Challenge Group Separation Process were disclosed in the 2001 Financial and Operating Report of Fletcher Challenge Forests Limited. This note should be read in conjunction with that report.

In November 2001 the High Court considered whether the assignment by CITIC of its interests in the claims to an associate company is valid. The High Court is expected to deliver its judgement on this issue in the first quarter of 2002. The remaining legal and associated expenses provision balance of \$4 million is considered adequate to meet further legal expenses whatever the outcome of the High Court decision.

Fletcher Challenge Forests refutes the claims made by Precision Lumber Corporation and as of the date of this half year report depositions are in the course of being taken by each party to the proceedings.

- As part of the Fletcher Challenge Group separation, Fletcher Challenge Forests sold to Rubicon Limited our biotechnology and South American assets but was not able to transfer legal title to certain assets, including an investment in an Argentinean associate. It is unlikely that we will be able to secure the legal transfer of all the assets by 22 March 2002, and it is therefore likely that Rubicon Limited will be entitled to call upon a fund of up to US\$10 million to meet any costs or losses Rubicon Limited suffers as a result of the failure to transfer legal title, including any amounts paid by Rubicon Limited to effect the transfer of legal title.

Fletcher Challenge Forests holds the assets in trust for Rubicon Limited until the title is transferred. There is a large range of potential outcomes for the resolution of this matter. Fletcher Challenge Forests believes that the ultimate outcome will not have any further significant impact on the financial position, results of operations or cash flows of the Group.

- As part of our debt funding arrangement for the secured senior credit facility for up to US\$200 million dated 2 March 2001 we have undertaken to be subject to Financial Covenants relating to gearing ratio, interest cover ratio and minimum net tangible assets, each to be tested against our consolidated financial information at quarterly intervals with a first test date of 31 December 2001. Since the initial drawing on 23 March 2001, we have identified that Total Tangible Assets of Restricted Subsidiaries represent less than the minimum required 90% of the group's consolidated Total Tangible Assets. We have communicated with the Facility Agent and requested a waiver of this requirement and that the Facility be amended. The Facility Agent has indicated a willingness to grant an amendment subject to agreement by all members of the banking syndicate being satisfied that their security has not been materially affected. Such agreement is expected to be given. If the banking syndicate does not grant a waiver, the Facility Agreement allows them to cancel the facility and require immediate repayment of all outstanding amounts. We do not expect cancellation of the Facility or that the consequences of this issue will be significant to Fletcher Challenge Forests.

SEGMENTAL INFORMATION

FINANCIAL INFORMATION (NZ\$ million) six months to ¹	(Unaudited)		
	Dec 01	Jun 01	Dec 00
Sales Revenue			
Australasian Consumer Solutions	83	74	76
Japanese and Asian Consumer Solutions	22	23	30
North American Consumer Solutions	91	72	75
Total Processing and Distribution	196	169	181
Forest and Logs ²	121	131	141
Total	317	300	322

Operating Earnings before Crop Revaluation, Interest, Taxation and Depreciation³			
Australasian Consumer Solutions	8	8	8
Japanese and Asian Consumer Solutions	-3	-3	-
North American Consumer Solutions	7	7	11
Total Processing and Distribution	12	12	19
Forest and Logs ²	25	9	17
Total	37	21	36

Operating Earnings before Crop Revaluation, Interest and Taxation³			
Australasian Consumer Solutions	3	3	4
Japanese and Asian Consumer Solutions	-3	-4	-
North American Consumer Solutions	5	4	9
Total Processing and Distribution	5	3	13
Forest and Logs ²	19	5	10
Total	24	8	23

1. Comparatives have been reclassified to reflect a change in business unit structure (for six months to December 2000). They also include adjustments for depletions and capitalised costs to align with the new forest accounting policy.
2. Comparatives exclude accrued interest income.
3. Before unusual items.

SALES VOLUMES ¹ (000m ³) six months to	(Unaudited)		
	Dec 01	Jun 01	Dec 00
Log/Residue Sales			
Forest Estate			
Pruned Radiata Sawlogs	52	36	34
Structural Radiata Sawlogs	113	121	108
Utility Radiata Sawlogs	270	259	225
Industrial Radiata Sawlogs	172	102	118
Douglas Fir Sawlogs	1	-	1
Pulp Logs and Residues	195	222	189
Production Thinnings	67	63	42
Total Forest Estate	870	803	717
Third Party Trading ²	1,048	1,210	1,392
Intra-Company Sales	-317	-250	-285
Total	1,601	1,763	1,824

Manufactured Product Sales³			
Solid Lineal Mouldings	15	11	15
Laminated and Finger-Jointed Product	41	38	39
Lumber	273	248	250
Total	329	297	304
Third Party Lumber Trading	38	36	49
Total	367	333	353

1. Represents 100% of the volumes from managed operations excluding CNIFP.
2. Includes logs, chips and residues.
3. Excludes 50% owned associate operations in Argentina (sold March 2001).

INVESTOR INFORMATION

Dividend

There is no 2002 interim dividend.

Share Registries

New Zealand

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The Fletcher Challenge Forests Limited website is located at: www.fch.co.nz

For Origin™ brand product information, go to www.origin.co.nz

Share Listings

	New Zealand	Australia	New York
Ordinary	FFS	FFS	FFS
Preference	FFSPA	FFSPA	FFS.A