




EVERGREEN  
FORESTS  
LIMITED

# Interim Report

JULY - DECEMBER 2001



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## Sustainable growth

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 radiata plantation forestry assets that meet clearly defined investment criteria.

As at 31 December 2001, it owns or has cutting rights over 21,200 net stocked hectares (52,150 acres) planted in fast-growing radiata pine. The company is run by a small Auckland-based executive team. Forest management is undertaken by specialists on contract. Forestry New Zealand, a subsidiary company, manages Evergreen's sales and marketing activities.

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 March 2009 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).

[ EVERGREEN FORESTS: converting environ  
smart management strategies to creat



## highlights

### Steady Profit

- Profit of \$3.54 million unchanged from the corresponding period last year.

### Market Conditions

- Strengthening demand from Asia leading to higher prices particularly for industrial and utility grade logs.
- Evergreen has switched its harvest focus to areas yielding a higher proportion of these log grades.

### Note Buyback

- Pro rata buy back for 15% of the convertible notes on issue completed.

## financial summary

\$NZ 000'S (UNLESS OTHERWISE STATED)	31 DEC 2001 (6 MONTHS) UN-AUDITED	31 DEC 2000 (6 MONTHS) UN-AUDITED	30 JUNE 2001 (12 MONTHS) AUDITED
Operating revenue	11,220	17,266	33,101
Net (deficit) surplus after taxation	3,540	3,532	5,044
Equity	117,574	107,965	114,347
Shares on issue (number in 000's)	140,734	131,434	140,734
Convertible notes on issue (number in 000's)	24,225	28,500	28,500
Land at cost	27,402	27,090	27,402
Forest at cost	156,116	144,637	151,651
Net asset backing per share at historical cost	\$0.84	\$0.82	\$0.81

All financial information is in New Zealand dollars, unless otherwise stated. At 31 December 2001, the rounded conversion rate was \$NZ1.00 = \$US0.4150.

mental conditions into wood products, using  
te sustainable growth and shareholder value].

# Report to Shareholders



② **Peter Wilson**  
*Chairman*



**Mark Bogle**  
*Chief Executive*

We are pleased to report a steady profit of \$3.540m for the six-month period ended December 2001 (2000: \$3.532m). Given current market conditions, we hope to record a similar operating profit during the second half of the financial year. The company's wholly owned marketing subsidiary, Forestry New Zealand, incurred a small deficit of \$0.067m on significantly lower third party sales volume.

We referred to the impact of the US economy on the forestry sector in our annual report and indeed the consequences have been evident over this reporting period. The NZ currency has remained at a historically low level, increasing returns in NZ dollars for exporters, and moderating much of the impact of the slowdown in the world economy. A softening of pruned log prices post September 11 has been offset to some extent by stronger demand and prices

for other log grades, particularly in Asia. This has prompted a change in Evergreen's harvest focus. Evergreen's policy of ensuring harvest flexibility has enabled us to move with the market and maximise the value recovered.

The year to date has been testing given the unusually wet weather with much higher than average rainfall. Production was disrupted in the second quarter impacting on this reporting period. We do expect to harvest increased volumes of unpruned stands this year to meet market demand and preserve more of our high value pruned stands. This will translate into increased physical volumes yielding a lower per unit stumpage.

## **Market conditions**

The volume of product supplied into NZ's export markets has remained high and that should be seen as positive evidence of

the market acceptability of radiata in both established and emerging markets.

The continuing supply of indigenous hardwoods into international markets has meant that the supply/demand tension required to deliver improved yields to plantation suppliers has been delayed. There is a market realisation that the tide is turning and the opportunities for much improved demand for NZ

plantation grown product will undoubtedly emerge. The uncertainty is that of timing.

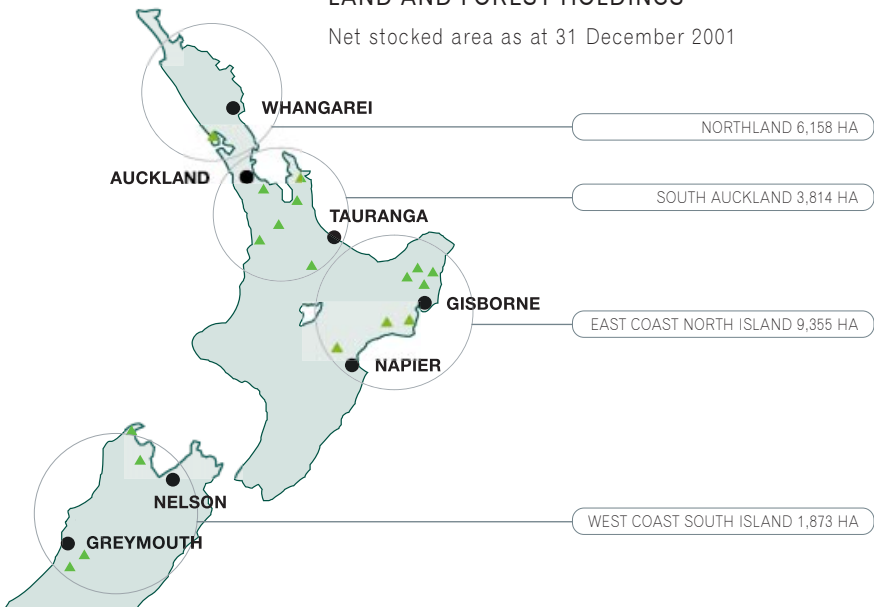
The industry has been

successful in supplying increased volumes into Asia and the opportunities in these markets holds considerable promise.

LAND AND FOREST HOLDINGS			
AS AT 31 DECEMBER 2001, IN HECTARES	LEGAL AREA	PLANTABLE AREA	NET STOCKED AREA
<b>Owned land</b>			
Northland	7,257	6,158	6,158
South Auckland	5,577	3,927	3,814
East Coast	13,359	9,531	9,355
South Island	254	208	158
<b>Total owned</b>	<b>26,447</b>	<b>19,824</b>	<b>19,484</b>
<b>Forestry rights</b>			
South Island	2,718	2,247	1,715
<b>Total all properties</b>	<b>29,165</b>	<b>22,071</b>	<b>21,200</b>

### LAND AND FOREST HOLDINGS

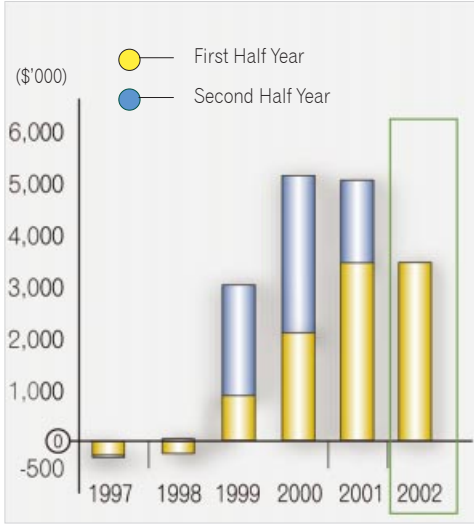
Net stocked area as at 31 December 2001



# Report to Shareholders

## EARNINGS GROWTH RECORD

1997 - 2002 (Years ended 30 June)



## Outlook

The successful completion of the offer to note holders and the realisation of positive cash flows has been recognised by shareholders through an improvement in the share price.

Evergreen's participation in on market purchasing under the share buy back scheme has been relatively modest with the Company as at 28 February having purchased just over

## New Zealand Log Exports by Destination (m<sup>3</sup>)

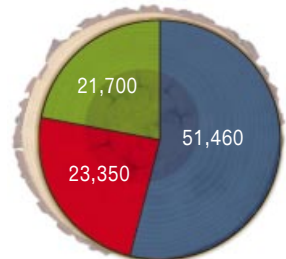
	CALENDER YEAR		
	1999	2000	2001
Korea, Republic of	3,237,725	3,027,662	4,098,060
Japan	1,577,146	1,680,630	1,543,599
China	213,880	363,434	910,726
Philippines	173,713	166,603	226,942
Other countries	198,473	303,960	189,308
India	283,631	518,154	180,167
Taiwan	119,633	75,847	95,471
<b>Total</b>	<b>5,806,200</b>	<b>6,138,290</b>	<b>7,246,274</b>

Source: MAF (note 2001 figures are provisional)

## EVERGREEN'S HARVEST VOLUME (m<sup>3</sup>)

SIX MONTHS  
TO DECEMBER 2001

- Pruned (24%)
- Sawlog (53.5%)
- Pulp (22.5%)



Source: Company data

22% of the shares traded since the buy back commenced.

We will continue to look at means by which we can strengthen our balance sheet and more closely align debt to forest maturity and anticipated cash flows.

While we have yet to conclude initiatives to achieve our desire to grow with the associated further benefits of scale, that objective remains in clear focus. Our efforts

will continue in this respect but careful management of the resource we own will be our first priority.

International markets for NZ suppliers are expected to be stable with yields at or about current realisations over the balance of this calendar year. We remain on track to obtain Forest Stewardship Council (FSC) certification in the next financial year. In the longer term we remain

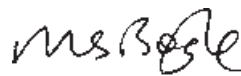
confident that our ability to provide high quality, FSC certified product on a sustainable basis will yield improved returns for our shareholders.



**Peter D. Wilson**

CHAIRMAN

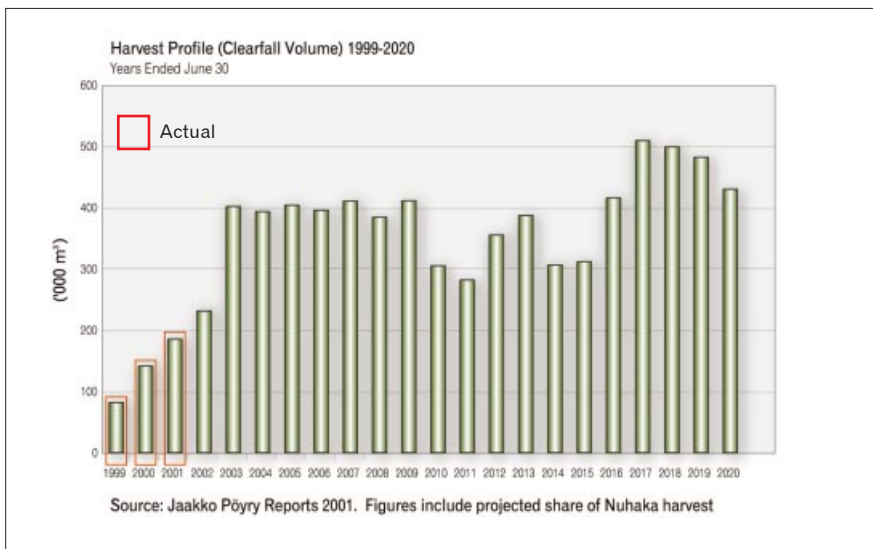
28 FEBRUARY 2002



**Mark Bogle**

CHIEF EXECUTIVE

28 FEBRUARY 2002



# Consolidated Statement of Financial Performance

For the six months ended 31 December 2001 (Un-audited)

IN \$NZ 000'S	NOTES	6 MONTHS ENDED		12 MONTHS TO
		31 DEC 2001	31 DEC 2000	30 JUNE 2001
<b>CONTINUING ACTIVITIES</b>				
Revenue	3	11,220	17,266	33,101
Expenses	4	7,680	13,723	26,593
<b>Net operating surplus</b>		<b>3,540</b>	<b>3,543</b>	<b>6,508</b>
Nuhaka Farm Forestry Fund Investment		-	-	(1,465)
<b>Net operating surplus before taxation</b>		<b>3,540</b>	<b>3,543</b>	<b>5,043</b>
Taxation		-	-	-
<b>Net operating surplus after taxation</b>		<b>3,540</b>	<b>3,543</b>	<b>5,043</b>
Minority interest in surplus of subsidiary		-	(11)	1
<b>Net Surplus</b>		<b>3,540</b>	<b>3,532</b>	<b>5,044</b>

# Consolidated Statement of Movements in Equity

For the six months ended 31 December 2001 (Un-audited)

IN \$NZ 000'S	NOTES	6 MONTHS ENDED		12 MONTHS TO
		31 DEC 2001	31 DEC 2000	30 JUNE 2001
<b>Equity at the beginning of the Period</b>		<b>114,347</b>	<b>104,941</b>	<b>104,941</b>
Total recognised revenues & expenses for the period - net surplus		3,540	3,543	5,043
Movements in minority interest		-	-	(507)
Shares Issued during the period		-	-	4,870
Repurchase of shares	10	(313)	-	-
<b>Equity at the end of the Period</b>		<b>117,574</b>	<b>108,484</b>	<b>114,347</b>

# Consolidated Statement of Financial Position

As at 31 December 2001 (Un-audited)

IN \$NZ 000'S	NOTES	31 DEC 2001	31 DEC 2000	30 JUNE 2001
<b>EQUITY</b>				
Attributed to parent company shareholders		117,574	107,965	114,347
Attributed to minority shareholders		-	519	-
<b>Total Equity</b>		<b>117,574</b>	<b>108,484</b>	<b>114,347</b>
<b>CONVERTIBLE INSTRUMENTS</b>				
Convertible redeemable preference shares	5	1,070	-	-
Ten year zero coupon convertible notes	6	28,361	31,171	32,320
<b>Total Convertible Instruments</b>		<b>29,431</b>	<b>31,171</b>	<b>32,320</b>
<b>NON CURRENT LIABILITIES</b>				
Borrowings	7	48,384	48,789	47,282
<b>CURRENT LIABILITIES</b>				
Accounts payable & accruals		1,583	3,907	3,527
Borrowings	7	4,000	1,038	2,000
<b>Total Current Liabilities</b>		<b>5,583</b>	<b>4,945</b>	<b>5,527</b>
<b>Total Liabilities &amp; Equity</b>		<b>200,972</b>	<b>193,389</b>	<b>199,476</b>
<b>NON CURRENT ASSETS</b>				
Land		27,402	27,090	27,402
Roading and land improvements		2,234	2,356	2,229
Forests	8	156,116	144,637	151,650
Fixed Assets		832	337	844
Investments	9	6,246	7,762	6,358
Advances		1,973	1,231	1,067
<b>Total Non Current Assets</b>		<b>194,803</b>	<b>183,413</b>	<b>189,550</b>
<b>CURRENT ASSETS</b>				
Cash & short term deposits		2,971	-	5,944
Accounts receivable, prepayments & inventories		3,198	9,976	3,982
<b>Total Current Assets</b>		<b>6,169</b>	<b>9,976</b>	<b>9,926</b>
<b>Total Assets</b>		<b>200,972</b>	<b>193,389</b>	<b>199,476</b>

# Consolidated Statement of Cash Flows

For the six months ended 31 December 2001 (Un-audited)

IN \$NZ 000'S	NOTES	6 MONTHS ENDED		12 MONTHS TO
		31 DEC 2001	31 DEC 2000	30 JUNE 2001
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
<b>Cash was provided by (applied to):</b>				
Receipts from customers		11,825	16,354	33,126
Payments to suppliers and employees		(9,439)	(13,546)	(24,361)
Interest received		106	48	110
Nuhaka distributions - revenue		72	44	44
Interest paid		(27)	(41)	-
<b>Net cash flows from operating activities</b>	<b>11</b>	<b>2,537</b>	<b>2,859</b>	<b>8,919</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
<b>Cash was provided by (applied to):</b>				
Acquisition of fixed assets		(116)	(67)	(780)
Proceeds from sale of assets		10	-	23
Loans & advances		(906)	(445)	(614)
Acquisition and development of forests		(1,820)	(1,690)	(3,329)
Interest		(1,138)	(1,305)	(2,694)
Acquisition of Nuhaka Units		-	(976)	(1,037)
Nuhaka distributions - capital		112	58	58
<b>Net cash flows from investing activities</b>		<b>(3,858)</b>	<b>(4,425)</b>	<b>(8,373)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
<b>Cash was provided by (applied to):</b>				
Proceeds from term borrowings		2,600	-	-
Proceeds from convertible preference share issues		1,070	-	-
Proceeds from share issues		-	-	4,870
Share repurchases		(313)	-	-
Convertible notes buy back		(5,009)	-	-
<b>Net cash flows from financing activities</b>		<b>(1,652)</b>	<b>-</b>	<b>4,870</b>
<b>NET INCREASE (DECREASE) IN CASH HELD</b>		<b>(2,973)</b>	<b>(1,566)</b>	<b>5,416</b>
Add cash at the beginning of the period		5,944	528	528
<b>Total cash at the end of the period</b>		<b>2,971</b>	<b>(1,038)</b>	<b>5,944</b>

# Notes to the Consolidated Financial Statements

For the six months ended 31 December 2001 (Un-audited)

## 1 STATEMENT OF ACCOUNTING POLICY

These financial statements have been prepared in accordance with FRS-24 Interim Financial Statements and should be read in conjunction with the audited financial statements for the year ended 30 June 2001.

The reporting period is the six months ended 31 December 2001.

The financial statements have been prepared using accounting policies consistent with those used in the published financial statements for the year ended 30 June 2001.

## 2 AUDIT

Figures for the six months ended 31 December 2001 and 31 December 2000 are un-audited.

Figures for the twelve months ended 30 June 2001 have been extracted from audited financial statements.

IN \$NZ 000'S	6 MONTHS ENDED		12 MONTHS TO
	31 DEC 2001	31 DEC 2000	30 JUNE 2001
<b>3 REVENUE</b>			
Revenue includes :			
Sales revenue - owned estate	10,363	7,960	16,640
Third party trading revenue	651	9,190	16,175
Interest income	106	49	110
Dividend income	72	36	44
Net Surplus on sale of assets	1	-	-
Other Revenue	27	31	132
	<b>11,220</b>	<b>17,266</b>	<b>33,101</b>
<b>4 EXPENSES</b>			
Expenses include :			
Depreciation	114	95	277
Interest Expense	27	-	50
Foreign Exchange Loss/(Gain)	(65)	-	74
Rental & operating lease costs	110	126	229
Other operating expenses	7,494	13,502	25,963
	<b>7,680</b>	<b>13,723</b>	<b>26,593</b>

# Notes to the Consolidated Financial Statements

For the six months ended 31 December 2001 (Un-audited)

(continued)

IN \$NZ 000'S	6 MONTHS ENDED		12 MONTHS TO
	31 DEC 2001	31 DEC 2000	30 JUNE 2001
<b>5 CONVERTIBLE REDEEMABLE PREFERENCE SHARES ("CRPS")</b>			
1,390,000 (2000:Nil) Shares at \$0.77	1,070	-	-

In November 2001 shareholders approved an issue of up to 2,000,000 convertible redeemable preference shares at \$0.77 per share to employees and the Chairman of the company. During the six months ending 31 December 2001 1,390,000 CRPSs were issued. In accordance with shareholder approvals, the company provided the participants with interest free loans equivalent to the subscription price of the shares. A preference dividend of \$0.11 per CRPS will be paid annually and this dividend less tax must be applied by the participants in repayment of the company loan. CRPSs rank ahead of ordinary shares in the company on a liquidation of the company for an amount equal to their subscription price. Each CRPS can be converted into one ordinary share at any time prior to 9 November 2011 at the option of the participant. A participant must elect between converting or redeeming his or her CRPSs for cash should he or she leave the company.

<b>6 CONVERTIBLE NOTES</b>			
24,225,000 (2000: 28,500,000) Notes at \$1.00	24,225	28,500	28,500
Interest Accrued at 7.18%	5,173	3,753	4,891
<b>Book value of convertible notes on issue</b>	<b>29,398</b>	<b>32,253</b>	<b>33,391</b>
Issue costs - net of amortisation	(1,037)	(1,082)	(1,071)
	<b>28,361</b>	<b>31,171</b>	<b>32,320</b>

During the six months period ended 31 December 2001 the company repurchased 4,275,000 convertible notes at \$1.1716 per note pursuant to a pro rata offer to all noteholders. The Ten Year Zero Coupon Convertible Notes accrue interest at the rate of 7.18% per annum and are secured by a second ranking floating charge over the assets of the company and its charging subsidiaries (Charging Group). Each convertible loan is redeemable in cash after 10 years (19 March 2009) for \$2.00 each. Noteholders can elect to convert the notes (principal plus accrued interest less any withholding taxes) into shares at any time prior to redemption at a fixed conversion price of \$0.55. Noteholders may reimburse the company for withholding taxes, enabling the noteholders to obtain full conversion. The company has the right to give twenty days notice of early redemption at any time, if after 19 March 2002 the share price is above \$1.10. The notes are constituted under a trust deed dated 2 February 1999. Incorporated in this trust deed are a number of covenants including the following summarised covenants:

- The charging group will not allow total secured liabilities (which includes the convertible notes, but based on a sliding scale if the ordinary share price is greater than \$0.55) to exceed 60% of freehold land plus 40% of forestry assets.
- The charging group will not allow its secured liabilities falling due for payment within 12, 24 and 36 months to exceed the value of its forest trees which are, respectively, at least 25, 24 and 23 years of age. The notes do not carry voting rights in the meetings of shareholders.

# Notes to the Consolidated Financial Statements

For the six months ended 31 December 2001 (Un-audited)

(continued)

IN \$NZ 000'S	6 MONTHS ENDED		12 MONTHS TO
	31 DEC 2001	31 DEC 2000	30 JUNE 2001
<b>7 BORROWINGS</b>			
Bank	35,500	32,900	32,900
Other	16,884	15,889	16,382
<b>Term Borrowings</b>	<b>52,384</b>	<b>48,789</b>	<b>49,282</b>

11

## Bank Borrowings

The company has a facility agreement with Westpac Banking Corporation to a maximum level of \$45.9 million. The bank borrowings are secured by way of a debenture trust deed over the assets of the charging group. Pursuant to the loan agreements the Charging Group has given undertakings as to the nature and conduct of its business. One of the principal undertakings is to ensure that the ratio of earnings (EBITDA) to bank interest will not be less than 1.5 times.

The interest rate for these borrowings is not fixed but the company has a one year interest rate swap for \$32.9 million (2000: 32.9 million) at 6.84% (2000: 8.125%) expiring on 28 June 2002. The company also has a fixed interest rate of 5.85% expiring on 28 June 2002 on \$2.6 million bank borrowing.

## Other Borrowings

Vendor finance was obtained for the purchase of two forest properties. These borrowings are secured by a first registered mortgage over the properties. Interest at 6.25% is added to the principal outstanding and is payable on maturity - 22 December 2004.

The term borrowings are repayable as follows:

Less than one year	4,000	-	2,000
Between one and two years	26,900	4,000	4,000
Between two and five years	21,484	44,789	43,282
	<b>52,384</b>	<b>48,789</b>	<b>49,282</b>

## 8 FORESTS

<b>At the beginning of the period</b>	<b>151,650</b>	<b>140,030</b>	<b>140,030</b>
Development costs capitalised during the period	1,820	1,767	3,463
Interest costs capitalised during the period	2,690	2,905	5,937
Forests acquired during the period	-	-	2,307
Amortisation	(44)	(65)	(87)
<b>At the end of the period</b>	<b>156,116</b>	<b>144,637</b>	<b>151,650</b>

# Notes to the Consolidated Financial Statements

For the six months ended 31 December 2001 (Unaudited)

(continued)

IN \$NZ 000'S	6 MONTHS ENDED		12 MONTHS TO
	31 DEC 2001	31 DEC 2000	30 JUNE 2001
<b>9 INVESTMENTS</b>			
Nuhaka Farm Forestry Fund	6,246	7,762	6,358

The Nuhaka Forestry Fund is a Group Investment Fund listed on the New Zealand Stock Exchange.

The company's holding at 31 December 2001 was 525,143 units (2000: 521,963).

The market value as at 31 December 2001 was \$4,332,430 (2000: 6,312,485).

## 10 REPURCHASE OF SHARES

On 22 August 2001 the company announced that it would repurchase up to 2,814,687 shares over the following twelve months. During the period of six months ending 31 December 2001 the company has repurchased 606,776 shares at an average price of \$0.515 per share as part of this buy back programme. The shares are held by the company as Treasury Stock.

Following these repurchases, and at 31 December 2001 the number of ordinary shares comprise:

Shares issued to the shareholders (000's)	140,127	131,434	140,734
Shares held as treasury stock (000's)	607	-	-
<b>Total</b>	<b>140,734</b>	<b>131,434</b>	<b>140,734</b>

All ordinary shares rank equally with one vote attached to each ordinary share with the exception of shares held as treasury stock for which rights and obligations are suspended until reissue.

## 11 OPERATING CASH FLOW RECONCILIATION

<b>Surplus after taxation for the period</b>	3,540	3,532	5,044
<b>Adjusted for non cash items :</b>			
Depreciation	114	95	277
Amortisation	44	65	87
Write-down of investment in Nuhaka	-	-	1,465
Minority Interest	-	11	(1)
<b>Adjusted for items treated as investing or financing :</b>			
Surplus on disposal of assets	(1)	-	-
<b>Adjusted for movements in working capital :</b>			
Accounts payable	(1,944)	(14)	(393)
Accounts receivable and inventories	784	(830)	2,440
<b>Cash flows from operating activities</b>	<b>2,537</b>	<b>2,859</b>	<b>8,919</b>

# Corporate Directory

As at 31 December 2001

## Directors

Peter D. Wilson, CA, Chairman  
Resident: Wellington, New Zealand

Donald M. Campbell, BSc (Highest Distinction)  
(Nebraska), MBA (Stanford)  
Resident: Hillsborough, California

William J. Falconer, CNZM, LLB  
Resident: Auckland, New Zealand

Stephen N. Hurley, AB (Amherst College),  
MBA(Hons) (Harvard University)  
Resident: Boston, Massachusetts

Roy M. McCluskey, AB Economics (Stanford)  
Resident: Boston, Massachusetts

The Hon. James K. McLay, QSO, LLB  
Resident: Auckland, New Zealand

## Management

Mark S. Bogle, MPP, CA  
Chief Executive

David E. Sayer, BSc(For), MNZIF  
General Manager

Gregory K. Parker, MBA, BCom  
Treasurer

Vivek Singh, BCom, CA  
Chief Financial Officer

David J. Paul, BForSci(Hons)  
Resource Forester

Simon P. Chisholm, BForSci(Hons)  
Woodflow Controller

Errol J. Caron, BCom, CA  
Financial Accountant

## Directory

Registered Office

Level 15, Quay Tower  
29 Customs Street West  
Auckland, New Zealand

Postal Address and  
Investor Enquiries

Private Bag 106 604  
Downtown, Auckland  
New Zealand  
Tel 64-9-307 3240  
Fax 64-9-307 3247  
E-mail [info@evergreen.co.nz](mailto:info@evergreen.co.nz)

## Internet Address

This and previous annual and half year reports can be accessed on the website: [www.evergreen.co.nz](http://www.evergreen.co.nz)

## Share Registrar

Computershare Registry Services Limited  
Private Bag 92 119, Auckland 1020,  
New Zealand  
Tel 64-9-522 0022 Fax 64-9-522 0058

## Auditors

PricewaterhouseCoopers, Auckland

## ADR Depository Bank

Bankers Trust Company  
4 Albany Street  
New York, New York 10006  
Tel 1-212-250 8500 Fax 1-212-250 5644

## Bankers

Westpac Banking Corporation

## Solicitors

Russell McVeagh

## Trustee

Perpetual Trust Limited

## Listings

The Ordinary Shares and Convertible Notes are traded on the New Zealand Stock Exchange ("NZSE") and the Australian Stock Exchange ("ASX").

The American Depository Receipts (ADRs) are traded on the "Pink Sheets" in the United States of America (20 Ordinary Shares comprise one ADR).

## Codes

	N Z	Australia	USA
Ordinary Shares	EVF	EVF	–
Convertible Notes	EVFGA	EVFG	–
ADRs		–	EVFSY

The Evergreen Interim Report 2001 is printed on Elementary Chlorine Free paper, sourced from a mill which fulfils the requirements of the Nordic Environmental Label, the Swan.



[www.evergreen.co.nz](http://www.evergreen.co.nz)