



CHAIRMAN'S REPORT

EVERGREEN FORESTS LIMITED YEAR-END AFTER TAX LOSS IS \$12.026M WITH A MODEST \$1.125M RECOVERY IN THE SECOND HALF YEAR. THE RESULT REFLECTS FURTHER NEGATIVE VALUE ADJUSTMENTS TO FOREST ASSETS IN DECEMBER 2003 AND REPORTED IN THE INTERIM ACCOUNTS TO THAT DATE. THE COMPANY ADOPTED VALUATION ACCOUNTING FROM JUNE 2003 SO ALL VALUATION CHANGES ARE NOW RECORDED ON AN AFTER TAX BASIS THROUGH THE OPERATING STATEMENT OF FINANCIAL PERFORMANCE.

TRADING CONDITIONS

Market conditions were testing through the second six months to 30th June 2004 with pruned log and export markets most affected. NZ dollar receipts for export logs were impacted by strength in our currency, continuing high shipping costs and some changes in demand from traditional offshore markets through alternative supply options. The consequence of these changes is shown in the following Export Market Situation Update table.

Evergreen harvesting operations achieved budget in terms of volume and grade recovery, however realised price for products was some 22% less than our expectations.

Evergreen's harvesting and marketing subsidiary aligned production to market demand with an increased proportion of sales to domestic customers over the year.

Forestry New Zealand traded at budget and provided additional revenue streams through purchasing stumpage and third-party log procurement activities.

EXPORT MARKET SITUATION UPDATE Prices and cost in \$/m3

LOG GRADE	PRUNED			A GRADE		
	06/03	12/03	06/04	06/03	12/03	06/04
USD Price ¹	\$107	\$135	\$133	\$67	\$103	\$86
Shipping	\$26	\$40	\$42	\$26	\$40	\$42
USD/NZD ²	0.583	0.654	0.64	0.583	0.654	0.64
NZD Price ³	\$139	\$145	\$142	\$70	\$96	\$69
NZD Costs	\$60	\$60	\$60	\$50	\$50	\$50
Net Margin	\$79	\$85	\$82	\$20	\$46	\$19

1. Free on board in discharge port. 2. 8 week average rate. 3. Free on board in New Zealand.

FOREST VALUATION

New Zealand dollar price recovery is the principal driver of forest valuation. The decline in prices has impacted all forest owners and there remains some concern that the factors of currency and shipping costs continue to have a negative impact. Recent trends suggest each of these factors may undergo some correction in the near term and if that is so, then NZ\$ receipts should improve.

Evergreen Forests Limited continues to engage external specialist valuers who are able to have regard to

current prices and forest transactions as well as make a judgement about future trends. Jaakko Pöyry Consulting (JPC) have factored in more modest future price improvement to their valuation but have retained a quite conservative 10% discount rate in their assessments. This rate was first introduced in December 2003.

Valuation changes and impact on Net Asset Value is shown in the following tables.

EVERGREEN FORESTS NTA

	30 June 04	30 June 03
Undiluted		
Net Asset Value before deferred tax	\$0.574	\$0.700
Net Asset Value after deferred tax	\$0.520	\$0.600
Fully diluted (allowing for all convertible instruments converting into shares)		
Net Asset Value before deferred tax	\$0.570	\$0.660
Net Asset Value after deferred tax	\$0.520*	\$0.590

*No dilution expected as conversion price is higher than NTA.

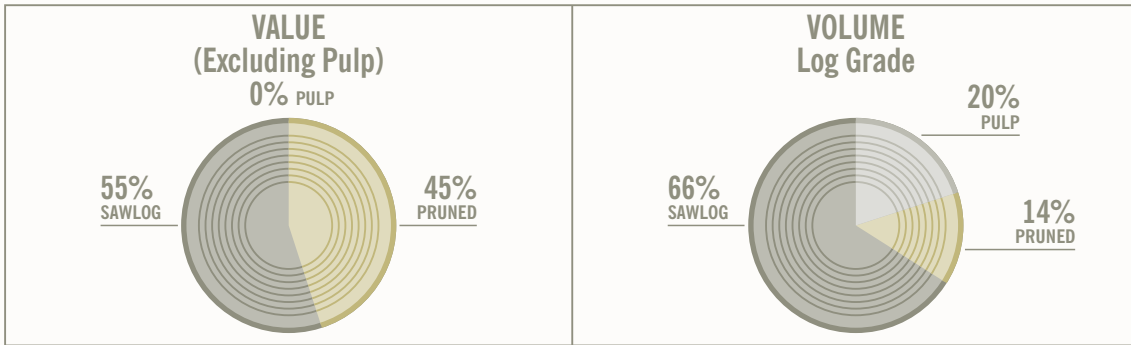
NET ASSET VALUE PER SHARE (UNDILUTED)¹ as at 30 June 2004

Value of Evergreen's ordinary shares based on independent valuation of forests with different price growth and discount rate assumption

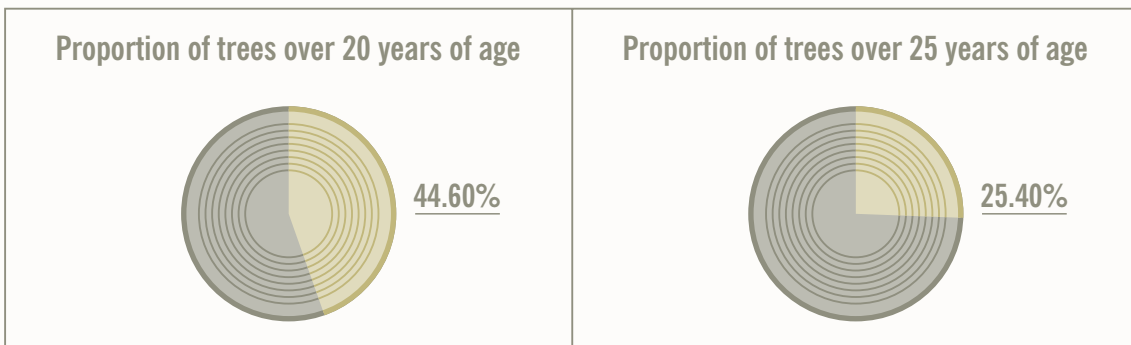
DISCOUNT RATE ³	REAL PRICE INCREASE ²				
	-Two%	-One%	Nil%	One%	Two%
Nine per cent	\$0.37	\$0.52	\$0.68	\$0.86	\$1.06
Ten per cent	\$0.31	\$0.44	\$0.57	\$0.73	\$0.90
Eleven per cent	\$0.26	\$0.37	\$0.49	\$0.62	\$0.77

1. Before deferred tax. 2. Per annum, over the ten-year period 2009 to 2019. 3. Pre-tax, real.

FOREST VALUE: DISTRIBUTION BY LOG TYPE



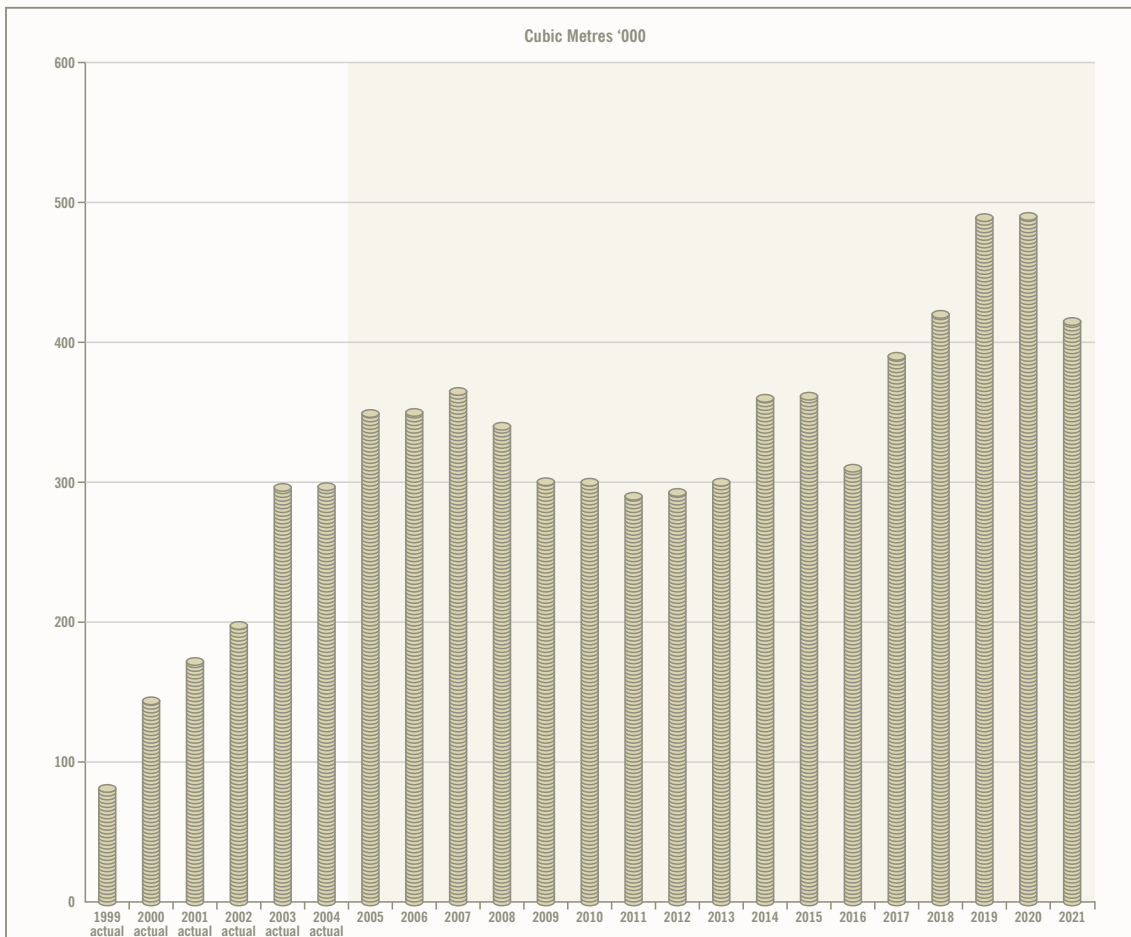
FOREST VALUE DISTRIBUTION BY AGE



The tables on this page are sourced from the Jaakko Pöyry Consulting Forest Valuation as at 30 June 2004.

The supplementary Forest information on page 8 outlines essential impacts of valuation changes and sensitivities.

HARVEST PROFILE



OUTLOOK

There has been significant offshore investment in New Zealand forest-lands over the last year. There are signs of confidence that NZ\$ prices will improve and as a result, so will forest values. However considerable uncertainty remains with log supply to export markets still influenced by currency and shipping, and irregular demand in our main export markets.

Domestic unpruned log markets have been strong over much of the year and with both the New Zealand and Australian economies prospectively strong in to 2005, these markets should be stable.

The domestic pruned log market improved in the last quarter following a recovery in the US appearance grade lumber market.

We expect to harvest a similar volume (2003/4 - 313,496 tonnes) in 2004/5, while retaining some flexibility to meet changes in market demand. This level of harvest will be consistent with sustainable volumes as detailed in the profile summary.

Forestry New Zealand Limited will continue to be involved in third party procurement activities as a means of extending its market influence and support the stumpage return for Evergreen's production.

EXTERNAL REVIEW

Shareholders have been informed of the review outcome and implementation of recommendations has been completed as far as structure is concerned. Steps to improve the company's balance sheet strength will take a little longer to effect but the strategy to achieve a stronger balance sheet with less debt remains at the heart of our objectives.

Ongoing costs at the corporate level are now less than 1% of assets under management and costs in all areas have been rigorously reviewed. The low cost strategy will continue with the underlying assumption that the company will manage its current asset base and seek to sell non-core peripheral assets to reduce debt.

THE YEAR AHEAD

Evergreen Forests Limited remains as the only listed pure-play forestry company in the New Zealand market. It has addressed its cost base and has now a continuing structure that compares favourably with what we understand to be the cost to investors in private equity forest investments.

The steps planned for this year through sale of non-core properties will, should these be accomplished, enhance the financial structure of the company and allow a range of future options to be considered.

GOVERNANCE

Two directors retired this year and I would like to thank Bill Falconer and Jim McLay for their support and contribution. With management changes through the review process, the continuing Board has accepted an increased work-load and with very positive support from our management team, the Board is confident we can maintain a low cost but very effective ongoing administration.

SHAREHOLDERS

This has been a trying time for our patient shareholders, many of whom have been with the company since its inception. The Board has taken some decisive steps with its intentions confirmed by an external review process.

This is a first step and the Board will this year consider how shareholder longer-term values may be realised. An underlying improvement in market conditions for the sector will be a precursor to valuation improvement and to market sentiment.



P D Wilson

Chairman

20 September 2004