

WHAT WE DO

City Forests Limited is a forest grower that actively harvests and markets the products from the 16,100 hectares of forests that it owns. Products are sold in both the export and domestic markets. To diversify our business risk we also have an investment in wood processing.

- > Harvesting in the Silverpeaks Forest.
- > Milburn wood processing plant.





FINANCIAL HIGHLIGHTS	2008 \$'000	2007 \$'000
Revenue	30,313	33,413
Net surplus for the year	1,422	4,897
Shareholder's funds	71,917	71,674
Total assets	134,049	129,136

WHAT WE DID THIS YEAR

Most participants within the forestry industry would say that this last year has been the most difficult they can remember. Export sales prices have been relatively flat compared to many other commodities and New Zealand dollar returns have been eroded by the high value of our dollar during the year. In addition there has been the material increase in both international freight costs and contracting costs. Much of this increase in costs has been associated with the significant increase in the cost of fuel at harvesting and for shipping. Also supporting this negative movement has been the world-wide shortage of shipping capacity due to very high demand driven by the emerging economies of the world requiring increased amounts of commodities to fuel their manufacturing industries. The result has been that the margin from harvesting for export logs has been eliminated.

The company strategy has been, and continues to be, to build on the core forest investment while diversifying our business risks away from our former high exposure to movements in international log prices, and to gain production efficiencies by increasing the scale of our operations.

The construction of a mill at Milburn has provided us with the capacity to process milled product from the best part of our pruned forest and provides us with potential to add value in the longer term. During the year there has been excellent consolidation and improvement in plant operations. This has given us some diversification from the risks associated with log income from North Asian economies, but the business has been hit through the collapse of the residential construction industries in the USA. In response we developed new markets in Australia and New Zealand.

Faced with poor returns from the export sector the board has been concerned to undertake the minimum level of production necessary to ensure that crucial skills and infrastructure are maintained while preserving as much forest for future economic cycles as possible. Forest production, particularly from our high export log-yielding stands, was deliberately scaled down by approximately 29,000 cubic metres, below budget. This means that trees will continue their growth for higher yield later and it also provides a boost to the year-end forest valuation as we now have more mature trees than anticipated.

Under NZ IFRS accounting rules the value of the forest growth is brought directly into the annual income. Natural growth has led to a positive \$5.6m (\$4.57m last year) appreciation in forest value and this forms a significant part of the annual result.

Overall the company remains positive with regard to the long-term industry outlook. Carbon emission reduction legislation appears to be moving slowly but eventually some regulation, which should be positive, will occur. The company maintains its internationally recognised Forest Stewardship Certification and has the capacity to substantially increase production over the next ten-year period. Should any of the key factors in the economic cycle swing in our favour we are well positioned to take advantage.

For more information visit www.cityforests.co.nz

THE PEOPLE

Directors	R D Liddell (Chairman)
	M O Coburn
	N G Evans
	P R Hudson
	S J McLauchlan
Chief Executive	G Dodson

