

WHAT WE DO

City Forests Limited is a forest grower that actively harvests and markets the products from the 16,044 hectares of forests that it owns. Products are sold in both the export and domestic markets. To diversify its business risk, City Forest we also has an investment in wood processing.

- > City Forests' strategy is to build on its core forest investment while diversifying the business by processing and adding value to its product.





FINANCIAL HIGHLIGHTS	2009	2008
	\$'000	\$'000
Revenue	33,884	30,313
Net surplus for the year	365	1,422
Shareholder's funds	70,869	71,917
Total assets	138,571	134,283

WHAT WE DID THIS YEAR

City Forests has successfully grown its log and timber sales volumes in an extremely challenging economic climate. This has been achieved primarily in the export market as domestic sales have declined over the year and many local mills have reduced volumes in response to the economic crisis.

Trading conditions have been extremely volatile during the year from massive changes in the key profitability drivers of exchange rate, shipping costs and market prices. The first half of the financial year saw an improvement in export returns driven by a rapid decrease in the value of the NZD and a decrease in shipping costs whilst market prices were slower to decline. The company moved quickly to increase harvest volumes over this period to take advantage of these returns.

In demonstrating the volatility of this market the period of higher returns ended abruptly in early 2009 when product dumping and low demand in Korea combined to reduce the market price of logs. Sales volume of the company's logs has been largely unaffected due to solid customer relationships. However, returns over the first half of 2009 have been declining rapidly as the NZD and shipping rates strengthened while market prices failed to compensate.

The company strategy has been, and continues to be, to build on the core forest investment while diversifying its business risks away from its former almost total exposure to movements in international log prices.

The construction of a mill at Milburn has provided City Forests with the capacity to process milled product from the best part of its pruned forest and this provides it with potential to add value in the longer term. During the year City Forests placed the majority of its higher value pruned logs into its own processing plant. Most lumber products from this plant are exported and the company undertook market development primarily in Asia and Australia to absorb the additional production from a third timber kiln that was commissioned in late June 2009.

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 \$3.3m (\$5.6m last year) appreciation in forest value and this forms a significant part of the annual result.

Looking to the future the company believes that volatile economic conditions will exist for some time and this will create opportunities as well as challenges. Management is focused on delivering improved returns to our shareholder and positioning the company to be nimble, reacting to the expected volatility in terms of production and logistical capacity. The company will also continue to ensure a strong international market presence to allow it to anticipate, and take advantage of, the improvement in any global demand for sustainably produced wood products that might occur.

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

