

WHAT WE DO

City Forests Limited is a forest grower that actively harvests and markets the products from the 15,997 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.



FINANCIAL HIGHLIGHTS	2010	2009
	\$'000	\$'000
Revenue	51,074	33,884
Net surplus for the year	7,114	365
Shareholder's funds	75,961	70,869
Total assets	148,010	138,571

WHAT WE DID THIS YEAR

The economic climate has improved for City Forests Limited over the last six months of the financial year. Export volumes to our key South Korean customers have increased to take advantage of the shift in Chinese demand that has improved margins from throughout the northern Asian region. For the first time this year we have received income from carbon trading under the New Zealand Emissions Trading Scheme.

Trading conditions continue to be volatile but since the beginning of the calendar year the combined effects of export log price, exchange rates and shipping costs have generally improved significantly.

The operation of our mill at Milburn has provided us with the capacity to process milled product from the best part of our pruned forest and this provides us with potential to add value in the longer term. During the year the plant has made excellent improvement in productivity. In respect of the product from the mill, lumber prices have also improved but this improvement is at a much lower level.

The commencement of carbon trading has had a major positive effect on the cash flows generated from the business. The company has executed approximately \$3.27m of carbon sales to date and has contracted an additional \$0.56m of future sales over the next three years. These sales to date represent only a small proportion of the potential value of the carbon in the company's forests and carbon trading

is expected to continue to be a strong contributor to the company's performance over the next decade.

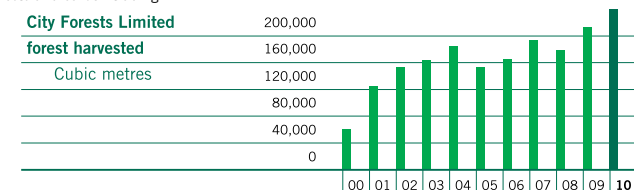
Under NZ IFRS accounting rules the value of the forest growth is brought directly into the annual income. Natural growth has led to a positive appreciation of \$1.2m (\$3.3m last year) in forest value. However, this element is much smaller than the \$4.6m attributable to the recognition of post-1989 forest carbon over the remainder of Kyoto Commitment Period One, as prescribed by the New Zealand carbon legislation. No value has been attributed to pre-1990 carbon, or Kyoto Commitment Period Two, carbon as the values at balance date were still quite uncertain.

Looking to the future we believe that volatile economic conditions will exist for some time although several of the factors behind the increase in demand for New Zealand logs in China are expected to continue for a while. If we have a stable legislative environment then carbon trading will continue and the company expects to receive an allocation of carbon units to compensate for the loss of land use flexibility in our pre-1990 forest estate. The company will also continue to ensure a strong international market presence to allow it to anticipate, and take advantage of, the improvement in demand for sustainably produced wood products.

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



> The drying kiln is opened at dawn at City Forests' Milburn processing plant. A large proportion of the fuel used for the heating process comes from recycled wood waste.

>> The new 50 tonne 'Feller Buncher' in operation.