

WHAT WE DO

City Forests Limited is a forest grower that actively harvests and markets the products from the 16,011 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	2011 \$'000	2010 \$'000
Revenue	53,454	51,074
Net surplus for the year	9,534	7,114
Shareholder's funds	83,838	75,961
Total assets	147,893	148,010

WHAT WE DID THIS YEAR

For the first time in many years the economic climate was both relatively stable and favourable throughout the year. Export log prices paid by our key South Korean customers increased to reflect the upward shift in Chinese demand that occurred and the NZD had yet to reach July 2011 highs. In order to take advantage of the improved market over the period the company increased forest production.

In addition the company sold carbon credits both for the current period and executed contracts in respect of future years. Cash flows from all activities fully funded dividends and lowered debt.

Trading conditions will continue to be volatile but many economic commentators are predicting that Asian infrastructure development will continue in the medium term to provide support to commodity prices. On the other hand demand in China sets the price level for northern Asia as a whole and demand fluctuates quickly in response to central economic policy adjustment. The weakness of the USD against the NZD is currently depressing returns but how long that may continue is unknown.

During the year the Milburn processing plant made further improvements in productivity and market development. However the timber market has not responded as strongly as the log market and timber demand in Australasia has been weak, reflecting the general economies on both sides of the Tasman. Demand in the USA has also been depressed and the weakness of the US dollar has further constrained returns from this market.

The commencement of carbon trading has had a major positive effect on the cash flows generated from the business. The company executed \$6.8m of carbon sales this year which is a significant boost to the annual result. These sales to date do not represent the total 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.

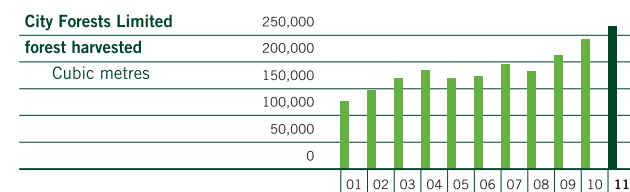
Under NZ IFRS accounting rules the value of the forest growth is brought directly into the annual income. This year, the adjustment has been minor and the gain in forest value is \$0.7m compared to \$6.2m last year.

Looking to the future, we believe that the only correct outlook is that volatile economic conditions will exist for some time.

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



> Loading City Forests' logs en route for markets in South Korea.

>> Grading processed timber boards at City Forests' plant at Milburn, South Otago.