

# 1. Development

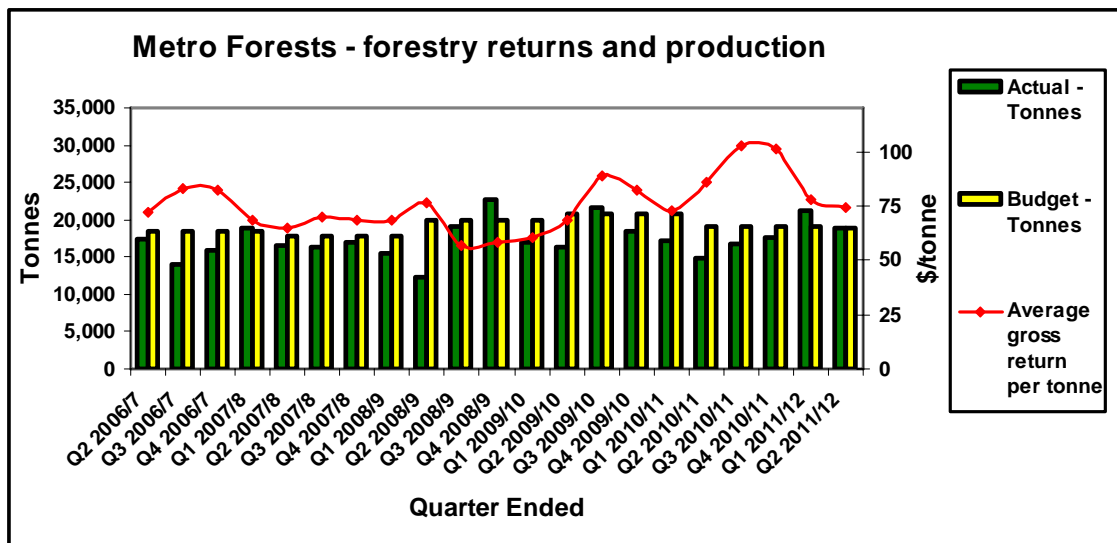
## 1.1 Forestry

### 1.1.1 Group overview

The variation in log prices is typical of the fluctuations in this business. Planning work is underway for harvesting at Battle Hill.

### 1.1.2 Key results for the year

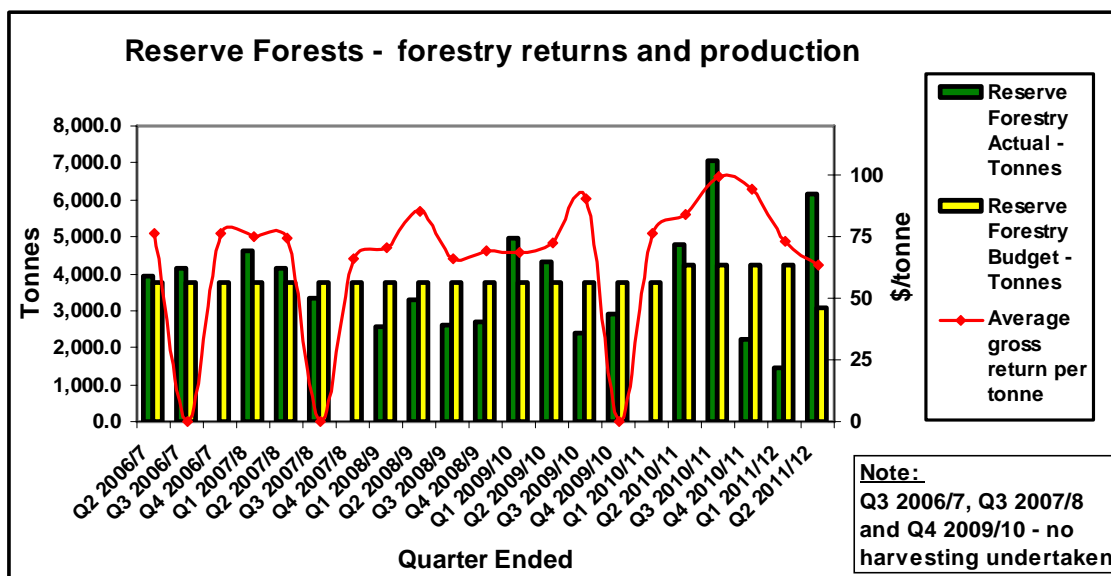
#### Metro Forests



#### Metro Harvest Quarter 2 2011

	Mill/Port \$ revenue	\$ Net return after costs	M3	Average before roads
October	432,701	137,449	5,993	22.94
November	586,537	175,119	8,178	21.41
December	387,395	147,117	4,769	30.85
2nd Quarter	1,406,632	459,689	18,940	24.27

## Reserve Forests



### Reserve Harvest Quarter 2 2011

	Mill/Port \$ revenue	\$ Net return after costs	M3	Average/tonne
October	29,072	2,769	436	6.35
November	61,253	-1,490	1049	-1.42
December	57,730	9,614	848	11.34
2nd Quarter	148,058	10,894	2,332	

### 1.1.3 Looking ahead

While at present we are serving the smaller markets of Korea, Taiwan and Philippines it is likely that these markets will disappear and we will return to China as our main market. Apart from the usual public holiday and seasonal variations this is expected to remain strong. This means our “at wharf gate” price should only vary with the dollar and shipping. Shipping is suppressed with Europe and America taking a reduced volume of manufactured goods but variations in Heavy Fuel Oil prices will have be recovered. The NZ dollar that currently sits at around \$0.8069 with the USD will be problem unless it falls.

The quarterly review of logging costs and cartage was as follows. Logging plus 2% (ineffective as both crews moving to new skids at negotiated prices) cartage plus 1.92%. These prices will be in place until April of this year.

A review of the next blocks to be harvested was held this week. The contractors will “square off” Lindsays block to avoid future windthrow with Log 6 completing the harvest of Pakuatahi West commencing in February. Log 36 will complete Boiler Gully by mid February and move to Western Ridge/Scrap Iron/Airstrip in the west side of the forest. These blocks will be harvested as one due to their risk of ongoing windthrow.

## 1.2 Financial summary

### 1.2.1 Departmental financial reports – Plantation Forestry

Last Year YTD Actual \$000	YTD Actual \$000	YTD Budget \$000	YTD Variance \$000	Plantation Forestry Income Statement For the period ended 31 December 2011	Last Year FY Actual \$000	Full Year Forecast \$000	Full Year Budget \$000	Full Year Variance \$000	notes
-	-	-	-	Rates & Levies	-	-	-	-	
-	-	-	-	Government Grants & Subsidies	-	-	-	-	
2,543	3,065	2,831	234	External Revenue	6,051	5,662	5,662	-	1
1	1	1	-	Investment Revenue	6,146	371	371	-	
5	-	10	(10)	Internal Revenue	10	20	20	-	
<b>2,549</b>	<b>3,066</b>	<b>2,842</b>	<b>224</b>	<b>TOTAL INCOME</b>	<b>12,207</b>	<b>6,053</b>	<b>6,053</b>	<b>-</b>	
				less:					
138	128	139	11	Personnel Costs	269	278	278	-	2
864	444	276	(168)	Materials, Supplies & Services	1,873	553	553	-	
8	10	15	5	Travel & Transport Costs	20	30	30	-	3
1,856	2,296	2,213	(83)	Contractor & Consultants	3,950	4,457	4,457	-	
-	-	-	-	Grants and Subsidies Expenditure	-	-	-	-	
44	56	53	(3)	Internal Charges	103	107	107	-	
<b>2,910</b>	<b>2,934</b>	<b>2,696</b>	<b>(238)</b>	<b>Total Direct Expenditure</b>	<b>6,215</b>	<b>5,425</b>	<b>5,425</b>	<b>-</b>	
471	544	452	(92)	Financial Costs	942	903	903	-	4
-	-	-	-	Bad Debts	-	-	-	-	
43	46	46	-	Corporate & Department Overheads	87	92	92	-	
61	42	43	1	Depreciation	96	86	86	-	
-	-	(4)	(4)	Loss(Gain) on Sale of Assets / Investments	-	(4)	(4)	-	
<b>3,485</b>	<b>3,566</b>	<b>3,233</b>	<b>(333)</b>	<b>TOTAL EXPENDITURE</b>	<b>7,340</b>	<b>6,502</b>	<b>6,502</b>	<b>-</b>	
<b>(936)</b>	<b>(500)</b>	<b>(391)</b>	<b>(109)</b>	<b>OPERATING SURPLUS/(DEFICIT)</b>	<b>4,867</b>	<b>(449)</b>	<b>(449)</b>	<b>-</b>	
61	42	43	(1)	Add Back Depreciation	96	86	86	-	
796	331	186	145	Other Non Cash	(4,409)	8	8	-	
(107)	(69)	(163)	50	Net Asset Acquisitions	(286)	(305)	(305)	-	
-	-	-	-	Net External Investment Movements	-	-	-	-	
<b>(186)</b>	<b>(196)</b>	<b>(325)</b>	<b>85</b>	<b>NET FUNDING BEFORE DEBT &amp; RESERVE MO</b>	<b>268</b>	<b>(660)</b>	<b>(660)</b>	<b>-</b>	
1,688	881	1,122	(241)	Debt Additions / (decrease)	2,484	2,252	2,252	-	
(1,502)	(684)	(796)	156	Debt Repaid	(2,752)	(1,592)	(1,592)	-	
-	(1)	(1)	-	Net Reserves (Increase) / decrease	-	-	-	-	
-	-	-	-	<b>NET FUNDING SURPLUS (DEFICIT)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	

### 1.2.2 Departmental financial summary – Plantation Forestry

- Both logging harvestings volumes and modestly increasing log prices were higher than budget. High demand, particularly from Asia, should see current volumes and prices at least hold over the short term.
- The “cost of goods sold” (COGS) is calculated using insurance values which are higher than those used in the budget. With the higher than budget volume logged this gives a much higher COGS than budget. A review of forestry cost of goods sold will be done during the next quarter to examine methods of more closely aligning it with the actual current cost of logs harvested.
- The higher than budgeted harvest volumes leads to a higher than budgeted cost of harvesting. Budgets are based on a per unit harvested basis. Per unit harvest costs are within budget.
- Similarly, the higher than budget revenues leads to financing cost reductions.

### 1.2.3 Departmental financial reports – Reserve Forestry

Last Year YTD Actual \$000	YTD Actual \$000	YTD Budget \$000	YTD Variance \$000	Reserve Forests Income Statement For the period ended 31 December 2011	Last Year FY Actual \$000	Full Year Forecast \$000	Full Year Budget \$000	Full Year Variance \$000	notes
-	-	-	-	Rates & Levies	-	-	-	-	
-	-	-	-	Government Grants & Subsidies	-	-	-	-	
970	605	469	136	External Revenue	1,341	937	937	-	1
-	-	-	-	Investment Revenue	2,019	1,032	1,032	-	
5	6	9	(3)	Internal Revenue	11	17	17	-	
<b>975</b>	<b>611</b>	<b>478</b>	<b>133</b>	<b>TOTAL INCOME</b>	<b>3,371</b>	<b>1,986</b>	<b>1,986</b>	-	
				less:					
41	38	43	5	Personnel Costs	81	85	85	-	
140	176	59	(117)	Materials, Supplies & Services	186	118	118	-	2
3	2	3	1	Travel & Transport Costs	3	6	6	-	
681	519	340	(179)	Contractor & Consultants	1,011	684	684	-	3
48	40	41	1	Grants and Subsidies Expenditure	-	-	-	-	
				Internal Charges	93	81	81	-	
<b>913</b>	<b>775</b>	<b>486</b>	<b>(289)</b>	<b>Total Direct Expenditure</b>	<b>1,374</b>	<b>974</b>	<b>974</b>	-	
438	535	543	8	Financial Costs	891	1,086	1,086	-	
-	-	-	-	Bad Debts	-	-	-	-	
21	22	22	-	Corporate & Department Overheads	42	44	44	-	
17	17	18	1	Depreciation	34	35	35	-	
-	-	-	-	Loss(Gain) on Sale of Assets / Investments	-	-	-	-	
<b>1,389</b>	<b>1,349</b>	<b>1,069</b>	<b>(280)</b>	<b>TOTAL EXPENDITURE</b>	<b>2,341</b>	<b>2,139</b>	<b>2,139</b>	-	
<b>(414)</b>	<b>(738)</b>	<b>(591)</b>	<b>(147)</b>	<b>OPERATING SURPLUS/(DEFICIT)</b>	<b>1,030</b>	<b>(153)</b>	<b>(153)</b>	-	
17	17	18	(1)	Add Back Depreciation	34	35	35	-	
125	150	44	106	Other Non Cash	(1,854)	(945)	(945)	-	
(111)	-	(27)	27	Net Asset Acquisitions	(128)	(55)	(55)	-	
-	-	-	-	Net External Investment Movements	-	-	-	-	
<b>(383)</b>	<b>(571)</b>	<b>(556)</b>	<b>(15)</b>	<b>NET FUNDING BEFORE DEBT &amp; RESERVE MC</b>	<b>(918)</b>	<b>(1,118)</b>	<b>(1,118)</b>	-	
3,251	3,460	1,217	2,243	Debt Additions / (decrease)	4,418	2,440	2,440	-	
(2,868)	(2,889)	(661)	(2,228)	Debt Repaid	(3,500)	(1,322)	(1,322)	-	
-	-	-	-	Net Reserves (Increase) / decrease	-	-	-	-	
-	-	-	-	<b>NET FUNDING SURPLUS (DEFICIT)</b>	-	-	-	-	

### 1.2.4 Departmental financial summary – Reserve Forestry

- Both logging harvestings volumes and modestly increasing log prices were higher than budget. High demand, particularly from Asia, should see current volumes and prices at least hold over the short term.
- As reported last quarter, the reserve forests cost of goods sold (COGS) reflects the same situation affecting plantation forests. The review will also include reserve forests COGS.
- Contractors' costs, consisting primarily of harvesting and haulage, have risen in proportion to the increased volumes harvested. The increase is within the expected range given the increased volumes.

## 2. Risks

There were no changes to the forestry risks during the period.