

1. Utilities

1.1 Forestry

(a) Group overview

It is pleasing to report the forestry tonnage sales for the period exceeded a quarter of the annual budget. The outlook for export prices for the next few months is now less promising than it was at the end of the last quarter. Domestic mills are also struggling to some extent and Eurocell at Upper Hutt, that Greater Wellington previously supplied logs to, has now closed down.

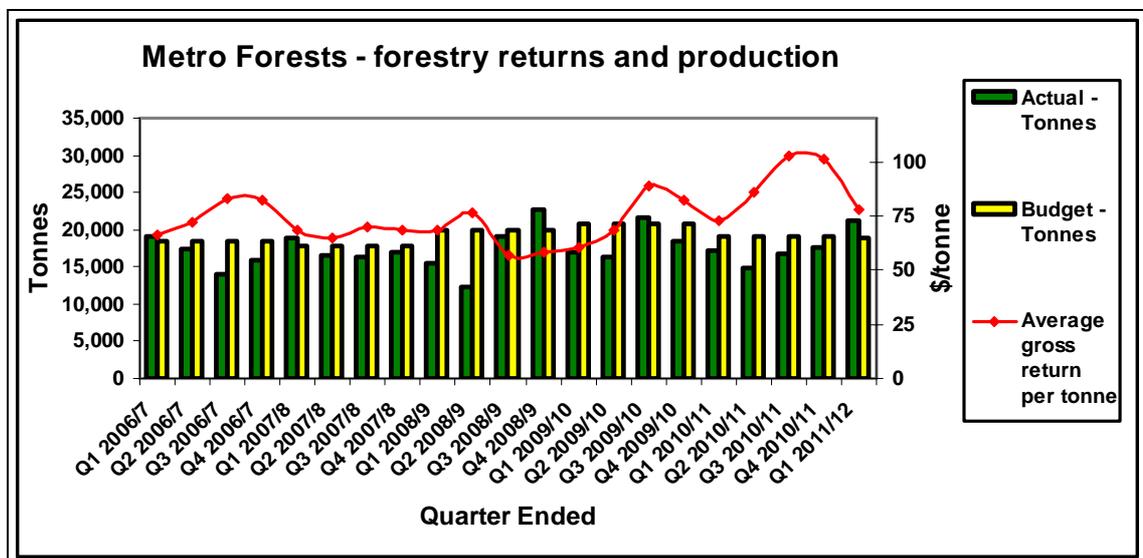
(b) Key results for the year

Plantation Forestry

Marketing

For the quarter, some 21,120 tonnes was harvested from the Metro forests with gross harvest returns at \$1,651,000 or \$78 per tonne before harvest and transport costs and this translates to an average stumpage return of \$29 per tonne before roading costs.

Throughout the quarter the export market has remained relatively buoyant with small and steady price increases between months. This combined with good volumes for September, alone resulted in a total of 8,184 tonnes for \$284,000.



The Eurocell sawmill remains closed and the site is for sale. Both Kiwi at Masterton and Davis regularly suspend deliveries due to an over supply of logs!

Logging

Metro

Log 36 completed the setting at Centre South, Puketiro and then went to Boiler Gully off Kilometre Road at Valley View. The balance of the Quarter was based on this setting during which the “Boiler” of Boiler Gully was revealed and extracted by the hauler. The boiler has now been stored at the Barn while arrangements are made to store/display it permanently.

Log 6 has spent the Quarter in Boiler Gully and Ragwort Hill off Lindsay’s Road.

Log 36 and Log have both shifted settings and now attract a cost premium as there present site contain large quantities of windthrow. We are fortunate to be able to recover the windthrow while it is still saleable.

Log 7 remained at Beech Spur with plans to move the crew to Boiler Gully to assist with road lining at Ragwort hill.

Metro Harvest Quarter 1 2011

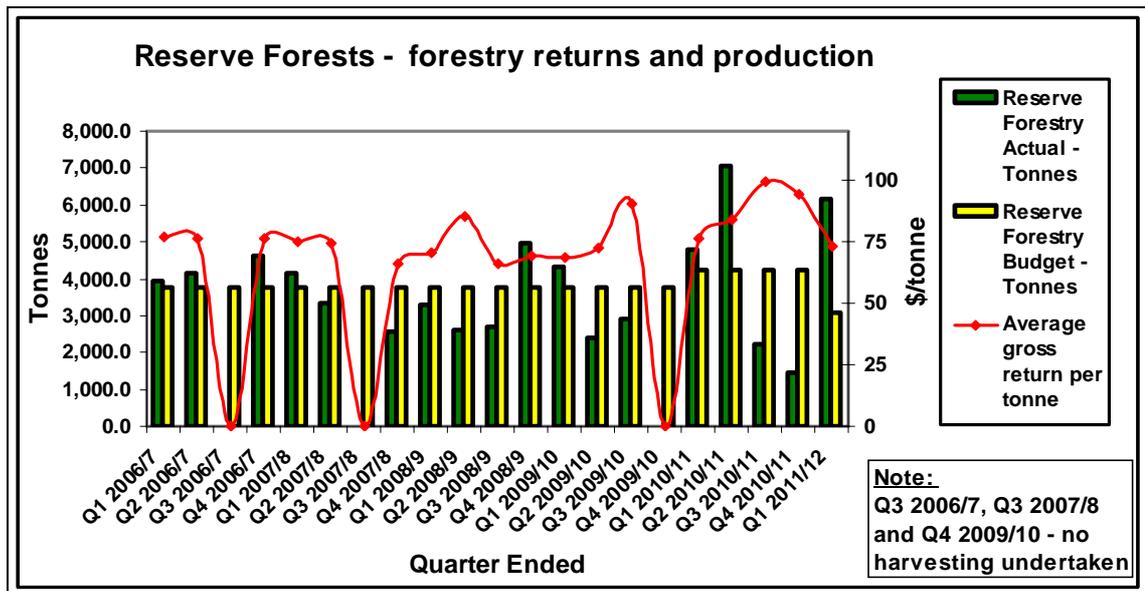
	Mill/Port \$ revenue	\$ Net return after costs	M3	Average before roads
July	438,614	166,299	5,702	29.17
August	538,056	167,236	7,235	23.11
September	673,977	284,027	8,185	34.70
1st Quarter	1,650,647	617,562	21,121	29.24

Reserve Forests

For the quarter, log production amounted to 6,168 tonnes and net proceeds or stumpage came in at around \$20 per tonne before roading costs.

Two logging crews have been working in the Tauanui forest.

The hauler crew has been working steadily on a steep and difficult face of the block. An old slip scar with a ring of stumps above an over steepened slope has been catching logs as they are hauled uphill and slowed the extraction process.



Two heavy snow fall events closed the access road and there were several days of downtime with little or no production. On both occasions, machinery was used to remove snow and restore access for the logging crews and trucks.

A significant slip fell across one road. A machine was again required to clear this.

As the snow melted, the road surface deteriorated and logging trucks had difficulty negotiating the road. The access road has since been repaired and metal added.

The China log market has improved and provided a home for the majority of the 6,168 tonnes that we harvested. Unfortunately, the amount of firewood in the mix has been at a higher proportion than expected because a lot of the trees were of a poor quality and old windthrow has diminished the value of the timber produced.

Reserve Harvest Quarter 1 2011

	Mill/Port \$ revenue	\$ Net return after costs	M3	Average/tonne
July	88,604	27,188	1,067	25.49
August	185,004	42,594	2,758	15.45
September	176,194	46,769	2,344	19.95
1st Quarter	449,802	116,550	6,168	

Snow damage

The two snow storms caused significant damage to trees at the Hiwinui forest and to the younger stands at Valley View. Trees had broken branches and heads and roads were blocked from the debris.

A three man crew spent three days working with chainsaws to remove the downed material and clear all of the roads at Hiwinui and a similar period was lost at Valley View.

The Valley View crews worked the weekend to makeup the log production lost during the snow storms and produced their best ever outturn for any single month!

Planting

The planting crew has just finished planting 14,000 Pinus radiata seedlings to supplement regeneration in the area harvested over the last two years. One of the areas has been planted in Douglas fir.

Planting has also finished in Valley View with 166,000 seedlings planted - approximately 116 hectares. As the planting season closes the nurseries tree stocks have been virtually exhausted.

(c) Looking ahead

For the first time that I can recall, Rayonier New Zealand has set the October prices for a two weeks period only rather than the usual four weeks.

As China enters into a holiday period mills have been closed with carry-over log stocks held at high levels. It is hoped that the mill which ran their stocks down prior to the shut down will now buy up large to restore stocks and provide a fillip to demand. This perceived optimism was not strong enough for Rayonier to lock in prices for the whole month.

The budget tonnage from the metro forests in 2011/12 is 75,700 tonnes. With the first quarter result at 21,121 tonnes we are meeting our target.

For the reserve forests, the annual budget is set at 12,400 tonnes but logging does not take place for the full 12 months. The first quarterly logging result at 6,168 tonnes also indicates that the annual budget will be achieved.

(d) 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 30 September 2011	Last Year FY Actual \$000	Full Year Forecast \$000	Full Year Budget \$000	Full Year Variance \$000	notes
-	-	-	-	Rates & Levies	-	-	-	-	
-	-	-	-	Government Grants & Subsidies	-	-	-	-	
1,255	1,655	1,415	240	External Revenue	6,051	5,662	5,662	-	1
1	1	1	-	Investment Revenue	6,146	371	371	-	
2	-	5	(5)	Internal Revenue	10	20	20	-	
1,258	1,656	1,421	235	TOTAL INCOME	12,207	6,053	6,053	-	
				less:					
69	65	70	5	Personnel Costs	269	278	278	-	
514	742	138	(604)	Materials,Supplies & Services	1,873	553	553	-	2
3	4	7	3	Travel & Transport Costs	20	30	30	-	
960	1,205	1,114	(91)	Contractor & Consultants	3,950	4,457	4,457	-	3
-	-	-	-	Grants and Subsidies Expenditure	-	-	-	-	
18	29	27	(2)	Internal Charges	103	107	107	-	
1,564	2,045	1,356	(689)	Total Direct Expenditure	6,215	5,425	5,425	-	
231	268	226	(42)	Financial Costs	942	903	903	-	4
-	-	-	-	Bad Debts	-	-	-	-	
22	23	23	-	Corporate & Department Overheads	87	92	92	-	
43	21	21	-	Depreciation	96	86	86	-	
-	-	-	-	Loss(Gain) on Sale of Assets / Investments	-	(4)	(4)	-	
1,860	2,357	1,626	(731)	TOTAL EXPENDITURE	7,340	6,502	6,502	-	
(602)	(701)	(205)	(496)	OPERATING SURPLUS/(DEFICIT)	4,867	(449)	(449)	-	
43	21	21	-	Add Back Depreciation	96	86	86	-	
469	692	95	597	Other Non Cash	(4,409)	8	8	-	
(42)	(26)	(71)	45	Net Asset Acquisitions	(286)	(305)	(305)	-	
-	-	-	-	Net External Investment Movements	-	-	-	-	
(132)	(14)	(160)	146	NET FUNDING BEFORE DEBT & RESERVE MO	268	(660)	(660)	-	
903	357	559	(202)	Debt Additions / (decrease)	2,484	2,252	2,252	-	
(771)	(342)	(398)	56	Debt Repaid	(2,752)	(1,592)	(1,592)	-	
-	(1)	(1)	-	Net Reserves (Increase) / decrease	-	-	-	-	
-	-	-	-	NET FUNDING SURPLUS (DEFICIT)	-	-	-	-	

Last Year YTD Actual \$000	YTD Actual \$000	YTD Budget \$000	YTD Variance \$000	Plantation Forestry Capital Expenditure Statement For the period ended 30 September 2011	Last Year FY Actual \$000	Full Year Forecast \$000	Full Year Budget \$000	Full Year Variance \$000	notes
-	-	-	-	Total Asset Acquisitions	-	32	32	-	
42	26	71	45	Capital Project Expenditure	285	283	283	-	
-	-	-	-	Asset Disposal Cash Proceeds	-	(10)	(10)	-	
42	26	71	45	Net Capital Expenditure	285	305	305	-	
-	-	-	-	Investments Additions	-	-	-	-	
42	26	71	45	Net Capital and Investment Expenditure	285	305	305	-	

(e) Departmental financial summary - Plantation Forestry

1. Logging production volumes were above budget and this has helped offset the lower log prices that prevailed.
2. The “cost of goods sold” – the estimated cost of producing the logs harvested in the period - is based on current insurance values and these are at a higher unit value than those applied for budgeting purposes.
3. With production at a higher level than budgeted contractor costs for harvesting and cartage have increased proportionately.
4. With the improved production volumes the financial costs have been reduced. In addition, financial costs are below budget because the debt position at the start of the financial year was lower than budgeted.

(f) 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 30 September 2011	Last Year FY Actual \$000	Full Year Forecast \$000	Full Year Budget \$000	Full Year Variance \$000	notes
-	-	-	-	Rates & Levies	-	-	-	-	
-	-	-	-	Government Grants & Subsidies	-	-	-	-	
362	455	234	221	External Revenue	1,341	937	937	-	1
-	-	-	-	Investment Revenue	2,019	1,032	1,032	-	
2	4	4	-	Internal Revenue	11	17	17	-	
364	459	238	221	TOTAL INCOME	3,371	1,986	1,986	-	
				less:					
18	21	21	-	Personnel Costs	81	85	85	-	
48	101	29	(72)	Materials, Supplies & Services	186	118	118	-	2
1	1	1	-	Travel & Transport Costs	3	6	6	-	
283	331	171	(160)	Contractor & Consultants	1,011	684	684	-	3
-	-	-	-	Grants and Subsidies Expenditure	-	-	-	-	
26	20	20	-	Internal Charges	93	81	81	-	
376	474	242	(232)	Total Direct Expenditure	1,374	974	974	-	
216	262	271	9	Financial Costs	891	1,086	1,086	-	
-	-	-	-	Bad Debts	-	-	-	-	
11	11	11	-	Corporate & Department Overheads	42	44	44	-	
9	9	9	-	Depreciation	34	35	35	-	
-	-	-	-	Loss(Gain) on Sale of Assets / Investments	-	-	-	-	
612	756	533	(232)	TOTAL EXPENDITURE	2,341	2,139	2,139	-	
(248)	(297)	(295)	(2)	OPERATING SURPLUS/(DEFICIT)	1,030	(153)	(153)	-	
9	9	9	-	Add Back Depreciation	34	35	35	-	
-	-	-	-	Unrealised Revaluation Gains	(2,019)	(1,032)	(1,032)	-	
37	77	22	55	Forestry - Cost of Goods Sold	165	87	87	-	
-	-	-	-	Loss(Gain) Investments	-	-	-	-	
-	-	-	-	Loss(Gain) on Assets	-	-	-	-	
37	77	22	55	Other Non Cash	(1,854)	(945)	(945)	-	
(202)	(211)	(264)	53	Cash Operating Surplus from Operations	(790)	(1,063)	(1,063)	-	
-	-	-	-	less:	-	-	-	-	
-	-	-	-	Total Asset Acquisitions	-	-	-	-	
-	-	-	-	Asset Disposal Cash Proceeds	-	-	-	-	
(52)	-	(14)	14	Capital Project Expenditure	(128)	(55)	(55)	-	
(52)	-	(14)	14	Net Asset Acquisitions	(128)	(55)	(55)	-	
-	-	-	-	Net External Investment Movements	-	-	-	-	
(52)	-	(14)	14	Net Asset & Investment expenditure	(128)	(55)	(55)	-	
(254)	(211)	(278)	67	NET OPERATING CASHFLOW BEFORE FUNDING REPAYMENTS	(918)	(1,118)	(1,118)	-	
(254)	(211)	(278)	67	NET FUNDING BEFORE DEBT & RESERVE MO	(918)	(1,118)	(1,118)	-	
539	506	606	(102)	Debt Additions / (decrease)	4,418	2,440	2,440	-	
(285)	(295)	(330)	35	Debt Repaid	(3,500)	(1,322)	(1,322)	-	
-	-	-	-	Net Reserves (Increase) / decrease	-	-	-	-	
-	-	-	-	NET FUNDING SURPLUS (DEFICIT)	-	-	-	-	

Last Year YTD Actual \$000	YTD Actual \$000	YTD Budget \$000	YTD Variance \$000	Reserve Forests Capital Expenditure Statement For the period ended 30 September 2011	Last Year FY Actual \$000	Full Year Forecast \$000	Full Year Budget \$000	Full Year Variance \$000	notes
-	-	-	-	Total Asset Acquisitions	-	-	-	-	
51	-	14	14	Capital Project Expenditure	128	55	55	-	
-	-	-	-	Asset Disposal Cash Proceeds	-	-	-	-	
51	-	14	14	Net Capital Expenditure	128	55	55	-	
-	-	-	-	Investments Additions	-	-	-	-	
51	-	14	14	Net Capital and Investment Expenditure	128	55	55	-	

(g) Departmental financial summary - Reserve Forestry

1. Logging production was at a volume well above budget and this has helped offset the lower log prices that prevailed during the first quarter.
2. Similarly, with the plantation forest the “cost of goods sold” charge uses current insurance values and these are at a higher unit value than those applied for budgeting purposes
3. Contractors’ costs for logging, harvest and cartage are higher than budgeted with the increased log tonnage produced in the period.

(h) Departmental risk analysis

Following the recent snowfall event, damage to tree branches and crowns from the weight of snow has been added as another identified risk of the forest business. Other risks have been reviewed and no changes have been made.

Future prices are expected to remain volatile.