

8 CEO REPORT



Andrew Grant
Chief Executive Officer
CO2 Group Limited

I thank our shareholders for their continued support during 2011 and also acknowledge the contribution that our customers and partners have made to CO2 Group this year. Our customer base continues to grow, driven in part by a greater focus that many companies now have on carbon offset strategies as well as the fact that our existing customers are investing more in strengthening their environmental credentials.

Last year I made mention of the fact that building a business which is tied to the emerging carbon economy requires a great deal of patience. I believe that this patience is now starting to pay off and the beneficiaries will be our shareholders, customers, our team, and of course the environment.

In Australia, the federal government's decision to implement policy that places a price on carbon has indeed been a catalyst for many organisations to become more focused on their carbon offset strategies. While government policy is not mission-critical for CO2 Group's business, it has certainly raised significant awareness of the rapidly growing carbon economy.

The passing of the Carbon Farming Initiative (CFI) legislation in August 2011 is also a positive development that will deliver long term growth to CO2 Group. This initiative allows landholders to participate in carbon reduction projects such as planting trees, increasing soil carbon and reducing on-farm emissions. It is one such initiative that has bi-partisan support and further evidence of the growing support for 'green' policy on both sides of the political spectrum.

During the year we took further steps to position the company as Australia's preeminent environmental services company. Whilst the planting and ongoing management of carbon sinks has been the cornerstone of CO2 Group's business, 2011 was the year where we have significantly broadened our service offering. This is reflected in the strong financial performance which the Chairman has summarised.

We have also expanded our international operations with the ongoing growth of our 45 percent-owned New Zealand business. We have secured new carbon sequestration projects and significantly expanded our long term carbon contract sales with major New Zealand Emission Trading Scheme (NZ-ETS) compliance parties. The New Zealand business is also engaged in the mapping of more than 220,000 hectares of pre-1990 forest land which is subject to deforestation obligations under the NZ-ETS. This makes CO2 New Zealand the largest land applicant to the New Zealand Government for pre-1990 forest allocations on behalf of its customers.

The implementation of the CFI legislation in Australia also provides a significant international growth platform which CO2 Group has started to capitalise upon. Large multinational organisations operating overseas can offset their carbon emissions by purchasing carbon credits created from the CFI. Early enquiries from large multinational corporations have been encouraging.

We launched our environmental trading division during the year – known as Carbon Banc™ – and this too has experienced significant growth. Revenue from March to October was in excess of \$11 million and customer enquiries are now at record levels. This platform provides

an access point for customers with an environmental obligation to typically illiquid emissions trading schemes. We believe that Carbon Banc™ will continue to be a key growth driver for CO2 Group and we are encouraged by the fact that we have grown this business from zero revenue seven months ago to a business that will be a major future revenue contributor.

As well as these initiatives CO2 Group has been engaged in other environmental services including mapping and forestry management inventory consulting, mine site rehabilitation work, broader environmental plantings and carbon accounting. While these account for a small percentage of the business in revenue terms, all offer upside potential for the company.

CO2 Group's core carbon sequestration business was the main contributor to the company's growth in 2011. Total estates under management increased 25 percent from 17,900 hectares to 22,300 hectares. These plantings continue to support long term, 30-50 year contracts, and all customers remain supportive of their respective projects and ongoing obligations.

CO2 Group is in strong shape and well placed for the year ahead. We have a strong cash position which gives us the necessary flexibility to grow and pursue our growth objectives which include:

- Continuing to grow our carbon estate at similar or greater growth rates than in prior years. Existing and new business opportunities position us well to achieve this;
- Capitalising on our new lines of business and more aggressively marketing these services to new and existing customers;
- Further expanding our New Zealand operations, and positioning CO2 Group for growth in new international markets;
- Continuing to focus on diversifying our business in terms of revenue spread, geographical location, and broadening our range of environmental services; and
- Ensuring we continue to manage our cost base and keep fixed costs broadly in line with current levels whilst still allowing us to pursue organic growth initiatives.

CO2 Group is in a unique position to capitalise on the opportunities ahead. With 500 large carbon emitters now actively looking at carbon offset strategies, and the growth potential that international markets present, I can confidently say that CO2 Group is still in the very early stages of its growth.

I would also like to thank the dedicated team at CO2 Group for their hard work and ardour during the year.

Your company is in great shape.



Andrew Grant
Chief Executive Officer
CO2 Group Limited