

CITY FORESTS LIMITED

CITY FORESTS LIMITED

**ANNUAL REPORT
FOR THE YEAR
ENDED
30 JUNE 2018**

CITY FORESTS LIMITED

CONTENTS

	Page
Company Particulars	3
Directors' Report	4 - 14
Information on Directors	15 - 16
Trend Statement	17
Financial Statements	18 - 21
Statement of Cashflows	22 - 23
Notes to the Financial Statements	24 - 53
Appendix:	
Statement of Service Performance	54-58
Independent Auditors Report	59

CITY FORESTS LIMITED

COMPANY PARTICULARS

As at 30 June 2018

DIRECTORS

J F Gallaher – A.F.A., F.C.A., B Com., CM.Inst.D. (Appointed 1.11.12)
(Appointed Chairman 1.10.13)

T D Allison – B.Com., B.A., C.A., CM.Inst.D. (Appointed 1.11.12 – Retired 31.12.17)

T J Mephram – B.Com., C.A., M.Inst.D. (Appointed 1.12.13)

M C Horne – L.L.B., F.C.A. (P.P.), B.Com., CM.Inst.D. (Appointed 9.12.13)

C Hopkins – B.Com., C.A., C.F.Inst.D. (Appointed 1.1.18)

CHIEF EXECUTIVE OFFICER

Grant Dodson – B.For.Sci, M.N.Z.I.F., M.Inst.D.

REGISTERED OFFICE

123 Crawford Street
Dunedin 9016
New Zealand

BANKERS

Westpac Banking Corporation

SOLICITORS

Gallaway Cook Allan

FINANCIAL ADVISERS

Deloitte

AUDITOR

Audit New Zealand on behalf of the Controller and Auditor General

SHAREHOLDER

Dunedin City Holdings Limited

CITY FORESTS LIMITED

DIRECTORS' REPORT

For the Year Ended 30 June 2018

The Directors' of City Forests Limited are pleased to present their report on the activities of the Company for the year ended 30 June 2018.

Principal Activities of the Company

This report covers the financial year 1 July 2017 to 30 June 2018.

The principal activities of the Company are the growing, harvesting and marketing of forest products from plantations it owns. The products are sold both in the domestic and export markets.

Results for the Year Ended 30 June 2018

	\$000
Operating Surplus before Income Tax and Impairment	33,055
Less Income Tax	<u>9,142</u>
Net Surplus for the Year	<u>\$23,913</u>

State of Affairs

The Directors' are very pleased with the results achieved by the Company, having regard to the favourable trading conditions experienced during the year and believe that the state of affairs of the Company is satisfactory.

Dividends

The Directors' declared and paid a total of \$8,000,000 in Dividends during the year made up of;

- an interim un-imputed dividend of \$2,000,000 in December 2017,
- a final un-imputed dividend of \$3,000,000 in June 2018,
- a special un-imputed dividend of \$3,000,000 in June 2018,

Donations

There have been donations made of \$17,000 during the year.

CITY FORESTS LIMITED

DIRECTORS' REPORT Cont'd/... For the Year Ended 30 June 2018

Reserves

The following net transfers have been made to or from reserves:

	\$'000
To Forestry Reserve	9,782
To Retained Earnings	12,413
To Hedging Reserve	(778)
To Land Revaluation Reserve	2,277
To Carbon Credit Reserve	(2,409)

Review of Operations

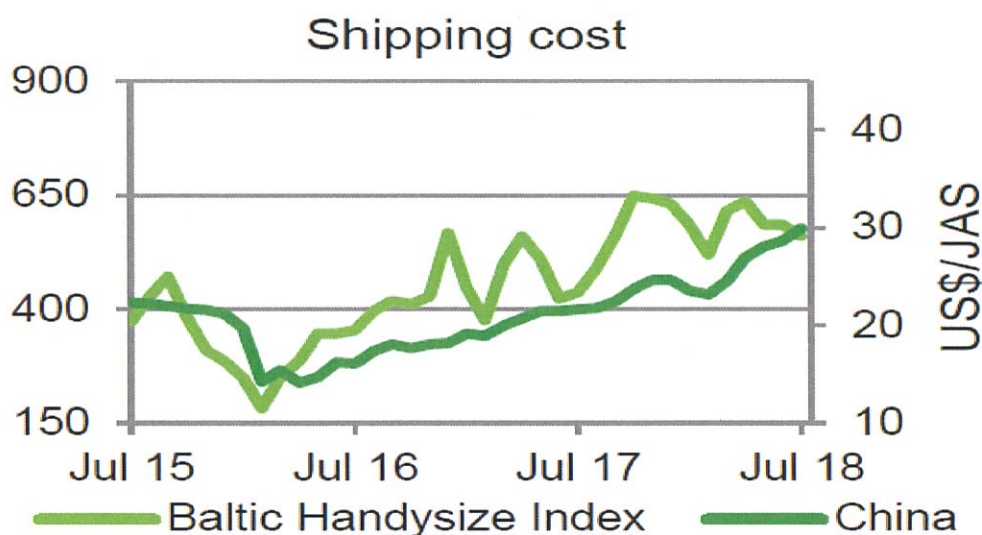
This review of operations and the accompanying financial reports cover the 1 July 2017 to 30 June 2018 financial year.

Directors are pleased to report another record financial performance for City Forests Limited for the year in terms of both profit after tax of \$23.91m and dividends paid of \$8.0m. A summary of markets and operational factors contributing to the result is detailed below.

Log Export Markets

The Company continues to supply both the South Korean and Chinese log markets with regular shipments. This financial year was a continuation of the favourable and relatively stable period in Asian log markets extending from late 2015. Log prices continued to rise steadily throughout the year in the “price setting” China market and these were mirrored in South Korea.

The cost per cubic metre of international shipping to Asian markets continued to rise from the previous financial year into levels in the USD \$23 – USD \$35 range and remained relatively stable about the upper half of the range during the last quarter of the year.



Source: AgriHQ, Lloyd's List Intelligence

Chart: Shipping Costs

CITY FORESTS LIMITED

DIRECTORS' REPORT Cont'd/... For the Year Ended 30 June 2018

The value of the New Zealand Dollar compared to the United States Dollar was varied during the year across the 0.68 – 0.74 range. However, a decrease in the New Zealand Dollar in the final quarter positively impacted receipts, which substantially offset the increases in shipping costs.

The combination of increasing log market prices, shipping costs and a lower value New Zealand Dollar delivered a period of very strong and stable log export returns for New Zealand forest owners.

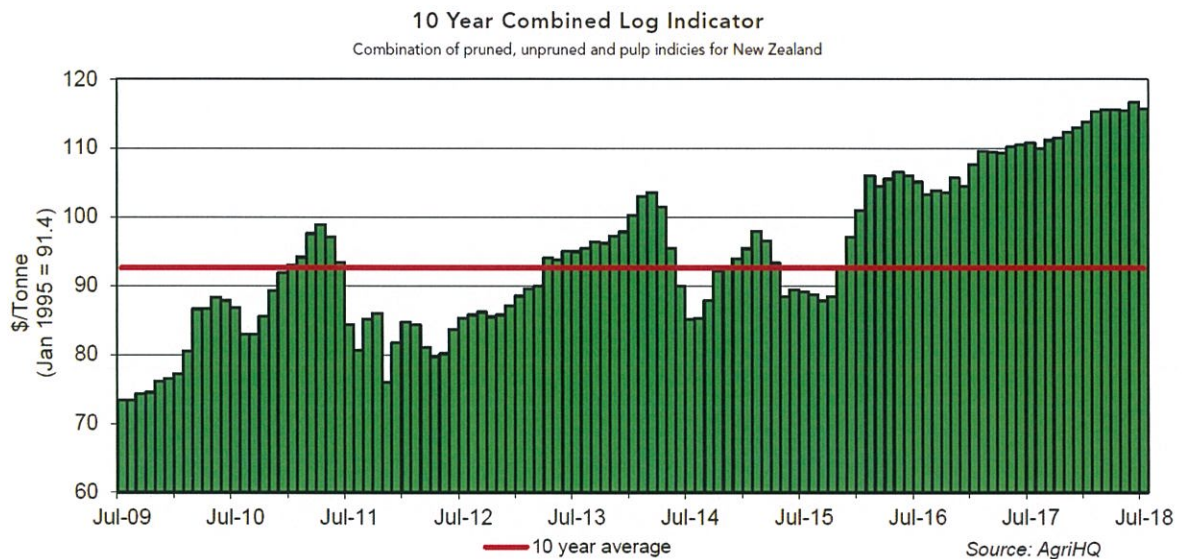


Chart: New Zealand Industry Average Log Prices

Health and Safety

The Board and Management of the Company is committed to achieving best practice in Health and Safety performance. Board resources allocated to governance and oversight of this key operational area have been significant during the year.

Foreign Exchanging Hedging

The Company receives revenue from export log sales in United States Dollars. These are converted to New Zealand Dollars and the applicable exchange rate impacts the Company's New Zealand Dollar returns. The Company hedges a proportion of its foreign exchange risk and the remainder of USD receipts are converted at spot rates.

Foreign exchange risk is managed by a United States Dollar hedging portfolio administered on City Forests Limited behalf by Dunedin City Treasury Limited. The transactions and hedging portfolio are managed in accordance with the Company's Foreign Exchange Policy that is endorsed by the shareholder. The Company was compliant with its foreign exchange policy throughout the year. As described above, the year has seen a variable but lower value New Zealand Dollar which has been a significant factor contributing to strong returns from the export log market.

CITY FORESTS LIMITED

DIRECTORS' REPORT Cont'd/... For the Year Ended 30 June 2018

Domestic Log Market

The Company continues to supply domestic mills in Otago and Southland. Overall 38.1% (44.3% previous year) of log production from the Company's forests was supplied to Domestic customers. Domestic supply is principally limited by production availability of the required domestic log grades and domestic processing capacity. In the last quarter Southland based domestic customers elected to reduce supply in order to minimise log transport costs as the Company's harvest activity moved to the northern part of the forest estate which explains the drop in domestic supply compared to last year.

Prices for logs supplied to domestic customers increased during the year due to competing price pressure from the alternative log export market. Major domestic customers log prices are agreed on a negotiated three-month log pricing cycle and as such, customers are generally insulated from competing against the rapid swings in log price that can occur in the log export market.

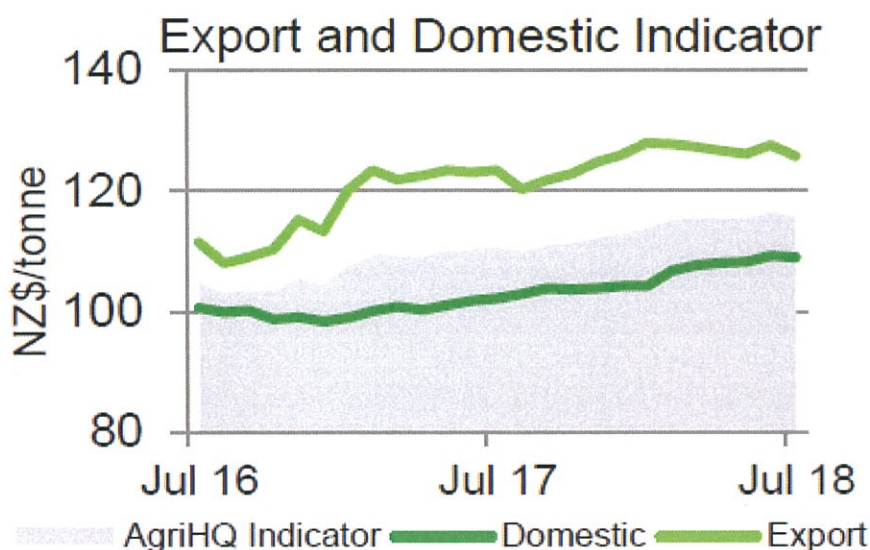


Chart: New Zealand Industry Average Export and Domestic Prices

Bio-energy

The Company continues to supply logs into the Dunedin bio-energy market. Some of this wood is dried and chipped for use in the modern low emission wood energy heat plants installed in a number of Dunedin buildings while a significant proportion continues to be sold into the traditional firewood market. Although the bio-energy market generally utilises lower quality logs not suited for higher quality uses consumption is growing as demand increases for clean energy.

CITY FORESTS LIMITED

DIRECTORS' REPORT Cont'd/... **For the Year Ended 30 June 2018**

Forest Production

The Company had a busy production year making the most of favourable log markets. The overall cut from the forest estate was 303,922m³. This represents a 1.4% variance compared to its long term sustainable cut level, which has increased due to forest acquisition. The Company has focused its harvest activity in generally higher productivity stands and this has led to an increase in the supply of higher quality logs. Considering the favourable log pricing experienced during the period the Company has made good returns from the high quality forest being harvested.

Part of the 2017 / 2018 harvest program occurred in the Scout Association joint venture area. This is the first of a series of harvest periods that will occur in joint venture forest areas. The favourable log pricing experienced during the period resulted in healthy returns to both parties.

The Company handled a total volume of 347,936m³ for the year. 44,014m³ of outside wood was traded during the year principally to supplement log export operations.

Roading and Infrastructure

A roading network of approximately 306 km is established in the Company's estate. 58km of major roads provide arterial access throughout the estate. Secondary roads, minor roads or tracks are upgraded prior to harvest and are generally kept operational for harvesting the next crop rotation. Regular maintenance is carried out principally by Delta, a sister Company on a arms length commercial basis.

Forest Asset Operations

The Company continues to re-establish all its production areas as soon as reasonably practical following harvest. The Company is actively working to plant all available productive areas and to plant the best available tree crop on those areas. This involves selecting tree stocks with the best genetic potential to produce a high value tree crop from each site.

The Company is participating in the implementation of the latest forest industry research, funded by the Forest Growers Levy to increase the productivity of the Companies forest estate. Scientists from the Crown Research Institute Scion have visited Company forests during the year to undertake trials, analyse growth data and provide advice to increase productivity per hectare.

The Company undertakes thinning in all its forests selecting the best trees to grow on to final harvest. As a direct result of the Scion research, thinning regimes have been modified to increase crop productivity. Pruning is carried out on the most productive sites to ensure a continued supply of high quality clear wood logs principally for domestic mills.

CITY FORESTS LIMITED

DIRECTORS' REPORT Cont'd/... **For the Year Ended 30 June 2018**

The Company recorded a Lost Time Injury Frequency (LTIF) of 31.7 lost time injuries per 1 million hours worked (7.1 previous year). 5 minor incidents contributed to this LTIF statistic which encompasses all Company staff and contract forest operations employees working on the Company estate. Upon review all of the 5 incidents were minor in nature and no serious harm injuries occurred.

During the year the Company continued to improve its health and safety systems in accordance with its annual plan. The areas of contractor certification, pre-operation risk assessment, internal safety audit systems, fatigue management and drug and alcohol testing were focus areas for the year.

Sustainable Forest Management

The Company continues to demonstrate its commitment to responsible and sustainable management of its forest estates.

The Company has held uninterrupted Forest Stewardship Council (FSC) certification since 2000.

FSC is an independent, non-governmental, not-for-profit organisation established to promote the responsible management of the world's forests. Based in Europe FSC was established in 1993. FSC certification is based on compliance with 10 principals and criteria. These principals incorporate amongst others indigenous peoples' rights, community relations and worker's rights, benefits from the forest eco-system, environmental impact, rare threatened or endangered flora and fauna management, forest management plans and monitoring and assessment performance. The full list of principals and criteria can be viewed online at FSC.org.

During the year a surveillance audit of Company management practices to the Forest Stewardship Council Certification Standard was completed. This certification provides key independent verification that the Company's strategy to be a sustainable land manager, good corporate and community citizen and a truly environmentally positive organisation is being successfully implemented. The Company products are sold as FSC certified.

New Land Acquisition

During the year the Company purchased 706 ha of new land including approximately 80 ha of trees. The land is situated close to the Company's existing Takitoa and Millers forests. These blocks are principally farmland and will be progressively planted during the 2018 and 2019 planting seasons providing an increase in the Company's sustainable harvest level and carbon sequestration. The Company continues with its strategy of estate expansion where quality forest or land can be acquired economically in proximity to the existing estate.

Milburn Processing Plant

The lease of the Milburn Processing Plant to Craigpine Timber Limited ended during the year and the site was subsequently sold through an open process conducted by Farmlands Realty. In addition, the joint venture company Otago Chipmill Limited was wound up during the period. The Company has now exited all wood processing ventures.

CITY FORESTS LIMITED

DIRECTORS' REPORT Cont'd/... For the Year Ended 30 June 2018

Carbon

The Company continues to be a participant in the emissions trading scheme and the Company's forests' store a significant volume of carbon expressed as New Zealand Units (NZU's) each representing one tonne of carbon dioxide.

The Company has received an allocation of 314,586 NZU's during the year.

The Company has sold 400,000 NZU's during the year. The market price of an NZU has been increasing particularly in the last quarter of the year.

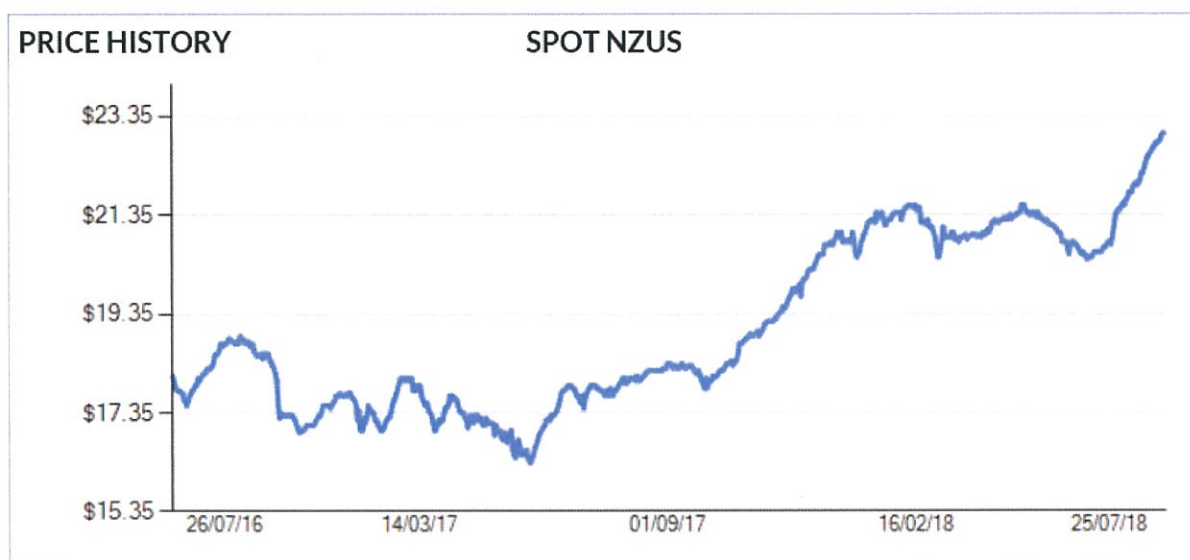


Chart: NZU Price. Source OM Financial

A significant proportion of the new land acquired, once established will qualify as new land plantings under the emissions trading scheme.

Carbon is incorporated as a component in the Company's forest valuation and the recognition of NZU's held in the Company's registry account is defined by accounting policy.

Forest Valuation

Company Forests are valued annually on 30 June and increased in value by \$13.585m from the previous year. The main drivers of the valuation increase were increases in 5 year average log prices and a revision of forecast forest yields and production costs.

During the year the company adopted a market based valuation approach for forestry land being a change from QV value method used in prior years.

CITY FORESTS LIMITED

DIRECTORS' REPORT Cont'd/... **For the Year Ended 30 June 2018**

The Company maintains a policy of a conservative but fair valuation of its forest assets. Although this year's value increase is significant it reflects a standard forest valuation approach that is independently audited by a third party Woodlands Pacific. Key input variables impacting the valuation are benchmarked against industry averages to ensure they meet the conservative but fair value test.

Dividends

The Company has paid a dividend to the shareholder of \$8.0m during the year. This is a record dividend that was increased from the budgeted dividend of \$5.0m by an additional special dividend of \$3.0m as a result of the favourable trading conditions experienced during the year.

Social and Environmental Contributions

The community continues to benefit from the significant network of walking and cycle tracks, picnic areas and other public amenities maintained by City Forests Limited. The Company continues to encourage the public use of its forests in a controlled fashion through a permit system with numerous recreational activities and organised events occurring during the year. Significant military exercises, the Rally of Otago, walking, mountain biking, horse trekking and hunting access are the most notable events.

The Company's financial contribution to the community has continued and a number of donations of \$17,000 & sponsorships of \$46,459 have been made to various organisations, community groups and charities. The most significant contributions are: Orokanui Eco Sanctuary \$30,000, Otago Hospice \$5,000, Yellow Eyed Penguin Trust \$5,000, Otago Peninsular Biodiversity Group \$3,500, Cancer Society \$2,500.

Non cash donations of firewood have been made to a number of clubs and charities.

Future Strategy

The Company continues to operate in a favourable forest products market although market conditions and subsequent returns are typically variable within the financial year and between years. Operationally, the Company intends to continue to harvest its forests at the long term sustainable cut level with some annual variations typically about +/- 10% to adjust for market conditions. Logs will continue to be supplied to a range of domestic and international markets.

Performance improvement in forest productivity and supply chain continues to be a focus of management to ensure returns from the forest estate are maximised in the long term.

The strategy of forest estate expansion continues and the Company plans to invest in economically viable new forest or land purchases that become available within its operational area.

In summary, the 2017 – 2018 year has been very favourable in terms profitability and the Company has paid a record dividend as well as reduced net debt and acquired new forest area.

Director's focus is to ensure the Company is run on a long term sustainable basis and that operational performance improvement and business growth occurs so long term wealth is built for the shareholder.

CITY FORESTS LIMITED

DIRECTORS' REPORT Cont'd/... **For the Year Ended 30 June 2018**

Outlook

The outlook for the 2019 financial year is to deliver a strong result in line with that achieved over recent financial years. The underlying operational performance is predicted to be similar, however profitability will be dependent on how log markets track throughout the year.

The Company's financial performance is driven by export and domestic log sales and strong customer relationships. A dividend of \$6.5 million is forecast for the 2019 year.

Looking to the medium term future the Company is optimistic that the New Zealand Forest Industry will continue to generate favourable returns in international and domestic log markets. This is driven by strong demand for wood products domestically and from China and other Asian economies experiencing good economic growth. As experienced in the past it is expected that economic volatility will cause these returns to remain cyclic in nature throughout each financial year.

Recent forest acquisitions have increased the Company's annual sustainable cut level to approximately 300,000m³ per annum, a 5% increase. The Company is well placed with a mature, harvest ready forest and proven export capability to make the most of market opportunities.

Carbon credit revenues are increasing due to forest acquisitions and the increasing market price. Carbon credit revenues are expected to remain a significant contributor to Company performance in the medium term. Carbon credit revenues provide financial recognition of the Company's wider positive environmental impact.

Change of Directors

During the year Mr Tony Allison retired from the Board and was replaced by Mr Chris Hopkins. The Company thanks Mr Allison for his significant contribution to the governance and strategic direction of City Forests Limited.

Ms Shelley Chadwick has been attending the Company's Board meetings as a non-voting Intern Director during the financial year.

Financial Statements

The audited financial statements for the year ended 30 June 2018 are attached to this report.

Directors' Interests in Contracts

Refer to Directors' Declarations of Interest section on pages 15 to 16 and the Related Parties Transactions note 15.

Auditors

The Controller and Auditor General have contracted the audit to Audit New Zealand. Auditor's remuneration is set out in Note 4.

CITY FORESTS LIMITED

DIRECTORS' REPORT Cont'd/... **For the Year Ended 30 June 2018**

Employee Remuneration

The number of employees with total remuneration exceeding \$100,000 per annum is detailed in the following table in \$10,000 remuneration brackets.

Table 1; Employee Remuneration and Other Benefits, \$000

	100-110	150 - 160	180-190	190-200	300-310
Number of Employees	1	1	1	1	1

Information on the Directors of City Forests Limited

Director	Responsibilities	Remuneration \$000	
		2018	2017
John F Gallaher	Non-Executive Director (Appointed 1 st November 2012) Chairman Remunerations Sub Committee (Appointed 1 st October 2013)	55	54
Tony D Allison	Non-Executive Director (Appointed 1 st November 2012) Chairman Audit Committee (Appointed 1 st October 2013 – Retired 31 st December 2017)	16	29
Tim J Mephram	Non-Executive Director (Appointed 1 st December 2013)	30	29
Michael C Horne	Non-Executive Director (Appointed 9 th December 2013)	30	29
Christopher C Hopkins	Non-Executive Director (Appointed 1 st January 2018)	15	-

Directors' Insurance

As provided in the Company's Constitution, City Forests Limited has arranged policies of Directors' Liability Insurance, which together with a deed of indemnity, ensure that the Directors will incur no monetary loss as a result of actions undertaken by them as Directors provided that they operate within the law.

CITY FORESTS LIMITED

DIRECTORS' REPORT Cont'd/... **For the Year Ended 30 June 2018**

Directors' Benefits

No Director of City Forests Limited has, since the end of the previous financial year, received or become entitled to receive a benefit other than a benefit included in the total remuneration received or due and receivable by the Directors shown in the financial statements.

There were no notices from Directors of the Company requesting to use Company information received in their capacity as Directors, which would not otherwise have been available to them.


Staff

The Directors record their appreciation of the professional and positive way that both staff and contractors have carried out their duties during the year. The Company is very fortunate to have a small but highly skilled and dedicated team ably led by Grant Dodson, the Company's Chief Executive Officer.

Events Subsequent to Balance Date

No significant events have occurred subsequent to balance date.

On behalf of the Board of Directors:



J F Gallaher
Chairman

1.10.18.
Date



T J Mephram
Director

1.10.18
Date

CITY FORESTS LIMITED

Information on the Directors of City Forests Limited

Director & Qualifications

Declarations of Interest

John Gallaher (Chairman appointed October 2013)

A.F.A., F.C.A., B Com., CM.Inst.D

Chairman, Digital Community Trust
Chairman, Otago Southland Diocesan Board of Management
Chairman, TracPlus Global Limited
Chairman, Tui Motu Foundation Inc
Chairman, United Way NZ Inc
Chairman, Mercy Hospital Dunedin Limited
Deputy Chairman, NZCEO Limited
Deputy Chairman, NZCEO Finance Limited
Director, CIANZ Inc
Director, FMO Registry Services Limited
Director, Fund Managers Otago Limited
Director, Gamma Investments Limited
Director, Granwood Holdings Limited
Director, Grow Dunedin Steering Group
Director, Heifer Ranching NZ Limited
Director, Mastah Investments Limited
Director, OPAL Limited
Director, Otago Rescue Helicopter Limited
Director, TracPlus Security Nominees Limited
Trustee, Otago Rescue Helicopter Trust
Trustee, William Sheriff Charitable Trust
Member, FIBA Finance Commission

Date appointed 1st November 2012

Tony Allison (Non-Executive Director)

B.Com., B.A., C.A., CM.Inst.D.

Director, AA Cleaners (Otago) Limited
Director, Dunedin International Airport Limited
Director, Forbury Park Trotting Club
Director, Smith City Finance Limited
Director, Smith City (Southern) Limited
Director, Smith City Properties Limited
Director, SGG Finance Limited
Director, Smith City Group Limited

Date appointed 1st November 2012

Retired 31st December 2017

Mr Tim J Mephram (Non-Executive Director)

C.A., B Com., M.Inst.D.

Deputy Chair, Presbyterian Support Otago
Treasurer, Yellow Eyed Penguin Trust
Principal, Rautaki Advisory
Director, PSO Retirement Villages Limited

Date appointed 9 December 2013

CITY FORESTS LIMITED

Director & Qualifications

Declarations of Interest

Mr Michael C Horne (Non-Executive Director)

L.L.B., F.C.A. (P.P.), B Com., CM.Inst.D.

Director, Deloitte Limited
Director, Escea International Limited
Director, Escea Limited
Director, Otago Polytechnic
Director, Palmer & Son Limited
Director, Palmer MH Limited
Director, Palmer Mechanical Limited
Director, Palmer Resources Limited
Director, Prospectus Nominees Services Limited
Director, Rawhiti Road Investments Limited
Director, Southern Rehabilitation Limited
Director, Viblock Limited
Director, Foodco New Zealand Limited
Director, Greenbriar Limited
Trustee, Ashburn Hall Charitable Trust
Trustee, Digital Community Trust
Trustee, Otago Festival of Arts Trust

Date appointed 9 December 2013

Mr Christopher C Hopkins (Non-Executive Director)

B.Com., C.A., C.F.Inst.D.

Chair, Robotic Technologies Limited
Chair, Engineering Dunedin Incorporated
Director, Scott Technology Limited including all subsidiaries
Director, Scott Technology Euro Limited
Director, NS Innovations Pty Limited
Director, Rocklabs Automation Canada Limited
Director, Oakwood Group Limited
Director, Our Planit Limited
Director, Spade Work Limited

Dated appointed 1 January 2018

CITY FORESTS LIMITED

TREND STATEMENT

	Year Ended 30 Jun 18	Year Ended 30 Jun 17	Year Ended 30 Jun 16	Year Ended 30 Jun 15	Year Ended 30 Jun 14
	\$'000	\$'000	\$'000	\$'000	\$'000
<u>FINANCIAL PERFORMANCE</u>					
Domestic Revenue	13,043	12,756	12,335	9,412	12,687
Export Revenue	39,421	26,465	33,861	26,751	22,108
Other Revenue	1,514	869	656	2,228	2,385
Total Revenue	53,978	40,090	46,852	38,391	37,180
Percentage Increase	34.6%	(14.4%)	22.0%	3.2%	5.5%
Inventory Movement	237	869	(224)	(170)	(308)
Total Expenses	39,683	28,857	35,341	31,072	28,216
Percentage Increase	37.5%	(18.3%)	13.7%	(10.1%)	(4.4%)
Operating Surplus	14,532	12,102	11,287	7,149	8,656
New Zealand Carbon Credits	6,467	6,182	1,462	-	2,694
Gain in fair value of forestry asset	13,584	9,629	9,524	2,515	1,571
Write down value of land	(1,528)	(389)	-	-	-
Impairment Charges	-	-	-	(80)	1,500
Surplus After Non-Operating Items And Before Taxation	33,055	27,524	22,273	9,744	11,421
Income Tax	9,142	7,420	6,252	2,702	3,130
Total Surplus after Taxation	23,913	20,104	16,021	7,042	8,291
<u>SHAREHOLDERS' FUNDS</u>					
Shareholders' Funds	160,343	139,058	120,901	96,649	95,932
Operating Cash flow	15,353	12,748	11,787	8,734	8,278
Dividends Paid - Normal	5,000	4,500	4,500	4,500	2,600
- Special	3,000	1,500	2,000	500	2,500
Value of Forest	150,172	136,333	123,802	113,629	111,093
Surplus after tax to shareholders funds	14.91%	14.45%	13.25%	7.29%	8.64%
Proprietorship Ratio	70.03%	67.36%	66.11%	62.53%	63.34%
Net Forest Revaluation	13,585	9,629	9,524	1,811	1,131
Net Land Revaluation	2,277	3,584	4,842	(22)	(102)
<u>FOREST STATISTICS</u> (whole no's)					
Forest harvested (m ³)	303,922	277,201	306,452	299,377	284,373
Volume traded (m ³)	44,014	64,455	71,364	18,530	2,583
Forest planted (ha)	739	579	487	605	602
Total forest (ha)	17,285	16,795	16,469	16,315	16,326
Forest purchased (ha)	244	347	156	-	204

CITY FORESTS LTD

Statement of Comprehensive Income

For the Year Ended 30 June 2018

		Year to 30 June 2018 \$'000	Year to 30 June 2017 \$'000 (restated) ¹
	Note		
Revenue	3	59,864	46,239
Financial income		580	33
Gain/(loss) in fair value of forestry asset	5	13,585	9,629
Total revenue		74,029	55,901
Inventory movement		237	869
<i>Less expenses</i>			
Contractors		16,163	13,896
Depreciation and amortisation expense		325	375
Directors fees		146	141
Employee expenses		1,465	1,483
Financial expenses		655	853
Other expenses	4	22,457	12,498
Total expenses		41,211	29,246
Profit before tax		33,055	27,524
Income tax expense	13	9,142	7,420
NET PROFIT AFTER TAX		23,913	20,104
Other comprehensive income			
Gains/(loss) on cash flow hedges taken to equity		(1,081)	1,304
Tax effect of cash flow hedges taken to equity		303	(365)
Increase in land revaluation		2,277	3,584
Carbon credits revaluation above initial recognition taken to equity		5,158	(586)
Tax effect of carbon taken to equity		(1,285)	116
Other comprehensive income for the year		5,372	4,053
Total Comprehensive Income for the Year		29,285	24,157

¹ Refer Note 2

The accompanying notes and accounting policies form an integral part of these audited financial statements.

CITY FORESTS LTD

Statement of Changes in Equity

For the Year Ended 30 June 2018

	Year to 30 June 2018 \$'000	Year to 30 June 2017 \$'000 (restated) ¹
Note		
Equity at beginning of year	139,058	116,059
Plus revaluation restatement as per note 2	<u>-</u>	<u>4,842</u>
Restated Equity to the beginning of the year	<u>139,058</u>	<u>120,901</u>
Total comprehensive income for the year (originally reported)	29,285	20,814
Plus restated land value	-	3,343
Distribution to owners		
Dividends	<u>(8,000)</u>	<u>(6,000)</u>
Equity at end of year	<u><u>160,343</u></u>	<u><u>139,058</u></u>

¹ Refer Note 2

The accompanying notes and accounting policies form an integral part of these audited financial statements.

CITY FORESTS LTD

Statement of Financial Position

As at 30 June 2018

		As at 30 June 2018 \$'000	As at 30 June 2017 \$'000 (restated) ¹	As at 1 July 2016 \$'000 (restated) ¹
	Note			
Equity				
Share Capital	8	25,691	25,691	25,691
Forestry reserve	9	72,514	62,732	55,799
Land revaluation reserve	9	25,550	23,273	19,689
Hedging reserve	9	(794)	(16)	(955)
Carbon credit reserve	9	8,411	10,820	11,290
Retained earnings	10	28,971	16,558	9,387
Total Equity		160,343	139,058	120,901
Current Liabilities				
Trade and other payables		2,360	3,170	3,098
Other current liabilities		253	445	293
Employee Provisions		134	125	120
Derivative financial instruments	11	645	40	524
Current portion of term borrowings	12	-	1,686	1,686
Provision for taxation		3,436	1,803	2,274
Provision for dividend		-	-	1,000
Subvention payable		533	548	-
Total current liabilities		7,361	7,817	8,995
Non-Current Liabilities				
Derivative financial instruments	11	457	525	947
Term borrowings	12	15,100	18,842	16,832
Other liabilities		320	320	320
Net deferred tax liability	14	45,370	39,890	34,871
Total non-current liabilities		61,247	59,577	52,970
Total Liabilities		68,608	67,394	61,965
TOTAL EQUITY PLUS LIABILITIES		228,951	206,452	182,866

¹ Refer Note 2

The accompanying notes and accounting policies form an integral part of these audited financial statements.

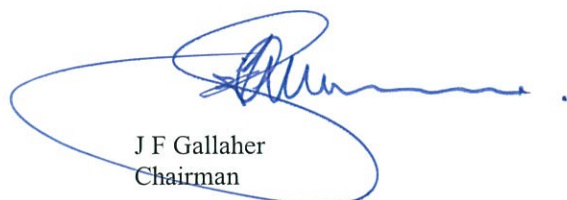
CITY FORESTS LTD

Statement of Financial Position Cont'd/....

As at 30 June 2018

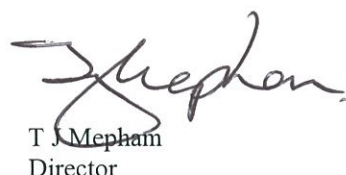
		As at 30 June 2018 \$'000	As at 30 June 2017 \$'000 (restated) ¹
	Note		
Current Assets			
Cash and cash equivalents		934	810
Trade and other receivables		2,677	2,909
Derivative financial instruments	11	-	426
Inventories – raw materials		1,299	1,062
Prepayments		140	426
GST refund		347	244
Assets held for sale	17	-	1,122
Deposit on property purchase		36	-
Total current assets		5,433	6,999
 Non-Current Assets			
Derivative financial instruments	11	-	118
Property, plant and equipment	7	46,306	39,568
Forestry assets	5	150,172	136,333
Investments		1	1
Intangibles – computer software		15	20
Intangibles – New Zealand carbon credits	6	27,024	23,413
Total non-current assets		223,518	199,453
 TOTAL ASSETS		228,951	206,452

For and on behalf of the Board of Directors


J F Gallaher
Chairman

Date

1.10.18


T J Mephram
Director

Date

1.10.18

¹ Refer Note 2

The accompanying notes and accounting policies form an integral part of these audited financial statements.

CITY FORESTS LTD

Statement of Cash Flows

For the Year Ended 30 June 2018

		Year to 30 June 2018 \$'000	Year to 30 June 2017 \$'000
	Note		
Cash Flows from Operating Activities			
<i>Cash was provided from</i>			
Receipts from customers		52,910	41,313
Effect of exchange rate changes		559	-
Interest received		21	25
		<u>53,490</u>	<u>41,338</u>
<i>Cash was disbursed to</i>			
Payments to suppliers and employees		33,866	24,649
Interest paid		711	811
Income tax/subvention		3,560	3,121
Effect of exchange rate changes		-	9
		<u>38,137</u>	<u>28,590</u>
Net Cash Inflows/(Outflows) from Operating Activities	16	15,353	12,748
Cash Flows from Investing Activities			
<i>Cash was provided from</i>			
Carbon credits sold		8,010	-
Sale of property, plant and equipment		1,419	105
		<u>9,429</u>	<u>105</u>
<i>Cash was disbursed to</i>			
Carbon credits purchased		-	548
Purchase of property, plant and equipment		6,302	1,511
Purchase of Forest Assets		4,673	4,950
		<u>10,975</u>	<u>7,009</u>
Net Cash Inflows/(Outflows) from Investing Activities		<u>(1,546)</u>	<u>(6,904)</u>

The accompanying notes and accounting policies form an integral part of these audited financial statements.

CITY FORESTS LTD

Statement of Cash Flows Cont'd/.... For the Year Ended 30 June 2018

	Year to 30 June 2018 \$'000	Year to 30 June 2017 \$'000
Cash Flows from Financing Activities		
<i>Cash was provided from</i>		
Proceeds from borrowings	8,800	6,410
	<u>8,800</u>	<u>6,410</u>
<i>Cash was disbursed to</i>		
Repayment of borrowings	14,483	4,746
Dividends paid	8,000	7,000
	<u>22,483</u>	<u>11,746</u>
Net Cash Inflows / (Outflows) from Financing Activities	<u>(13,683)</u>	<u>(5,336)</u>
Net Increase in Cash Held	124	508
Cash and short term deposits at the beginning of the year	<u>810</u>	<u>302</u>
CASH AND SHORT TERM DEPOSITS AT THE END OF THE YEAR	<u>934</u>	<u>810</u>
Composition of Cash		
Cash and short term deposits	<u>934</u>	<u>810</u>

Accounting Policy

The statement of cashflows is prepared exclusive of GST, which is consistent with the method used in the statement of comprehensive income via surplus or deficit.

‘Operating activities’ represents all transactions and other events that are not investing or financing activities, and includes receipts and repayments of occupancy advances.

‘Investing activities’ are those activities relating to the acquisition and disposal of property, plant and equipment, intangibles and other long-term assets.

‘Financial activities’ are those activities relating to changes in the debt capital structure of the Company.

The accompanying notes and accounting policies form an integral part of these audited financial statements.

Notes to the Financial Statements

For the Year Ended 30 June 2018

1. REPORTING ENTITY

City Forests Limited is a Council Controlled Trading Organisation as defined in the Local Government Act 2002. The Company, incorporated in New Zealand under the Companies Act 1993, is a wholly owned subsidiary of Dunedin City Holdings Limited. Dunedin City Holdings Limited is wholly owned by Dunedin City Council.

The registered address of the Company is 123 Crawford Street, Dunedin.

City Forests Limited is a profit orientated entity.

The financial statements have been prepared in accordance with the requirements of, the Local Government Act 2002 and the Companies Act 1993.

These financial statements are presented in New Zealand dollars because that is the currency of the primary economic environment in which the Company operates. The rounding is in (000)'s.

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

The annual financial statements have been prepared in accordance with NZ GAAP. They comply with New Zealand Equivalents to International Financial Reporting Standards (IFRS), and other applicable Financial Reporting Standards, as appropriate for profit orientated entities.

The financial statements were authorised for issue by the Directors on 1st October 2018.

Basis of Accounting

The Company is a Tier 1 for-profit entity as defined by the External Reporting Board and has reported in accordance with Tier 1 For-profit Accounting standards. These annual financial statements are general purpose financial reports which have been prepared in accordance with generally accepted accounting practice in New Zealand, and comply with the New Zealand equivalents to the International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards as appropriate for profit entities.

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain property, plant and equipment, biological assets, derivative financial instruments, financial instruments classified as available for sale and financial instruments held for trading.

Changes in Accounting Policies

The accounting policies set out below have been applied consistently to all years in these financial statements..

CITY FORESTS LTD

Notes to the Financial Statements Cont'd/.... For the Year Ended 30 June 2018

Prior Period Adjustment

In prior years City Forests Limited used QV rating values for the land valuation. As at 30 June 2018 City Forests Limited instructed Morice Limited to provide NZ IFRS 13 *Fair Value* compliant valuations of the land for 30 June 2016, 2017 and 2018. As a result the company has restated the value of the land within property, plant and equipment and the land revaluation reserve within equity as at 30 June 2016 and 30 June 2017. The restatement to the value of land has also resulted in flow on adjustments to the land revaluation movement through other comprehensive income.

Changes to the comparative Statement of Financial Position including opening position as at 1 July 2016 and 30 June 2017 are detailed below:

	2016 Reported Position \$'000	2016 Land Revaluation Adjustment	2016 Restated Position \$'000	
Land revaluation reserve	14,847	4,842	19,689	
Total Equity	116,059	4,842	120,901	
Non Current Assets				
Land at valuation	26,650	4,842	31,492	
Property, Plant and Equipment	31,556	4,842	36,398	
Total Assets	178,024	4,842	182,866	
	2017 Reported Position \$'000	2017 Land Revaluation Adjustment	2016 Land Revaluation Adjustment	2017 Restated Position \$'000
Land revaluation reserve	15,088	3,343	4,842	23,273
Total Equity	130,873	3,343	4,842	139,058
Non Current Assets				
Land at valuation	27,570	3,343	4,842	35,755
Property, Plant and Equipment	31,383	3,343	4,842	39,568
Total Assets	198,267	3,343	4,842	206,452

Changes to the comparative Statement of Comprehensive Income for 30 June 2017 are detailed below:

	2017 Reported Amount \$'000	2017 Adjustment	2017 Restated Amount \$'000
Land revaluation through other comprehensive income	241	3,343	3,584
Total other comprehensive income	710	3,343	4,053

CITY FORESTS LTD

Notes to the Financial Statements Cont'd/.... For the Year Ended 30 June 2018

Critical Accounting Estimates and Assumptions

In preparing these financial statements, estimates and assumptions have been made concerning the future. These estimates and assumptions may differ from the subsequent actual results. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations or future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Note 5 provides information about the forestry assets and the relevant assumptions in determining the value.

Currencies

The financial statements of the Company are presented in the currency of the primary economic environment in which the Company operates (its functional currency). For the purpose of the financial statements the results and financial position of the Company are expressed in New Zealand dollars, which is the functional currency of the Company.

Transactions in currencies other than New Zealand dollars are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing on the balance sheet date. The Company does not hold non-monetary assets and liabilities denominated in foreign currencies.

In order to hedge its exposure to certain foreign exchange risks, the Company may enter into forward contracts and options (see below for details of the Company's accounting policies in respect of such derivative financial instruments).

Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in the statement of comprehensive income via surplus or deficit in the year in which they are incurred, with the exception of the Ministry of Forestry loans.

Employee Entitlements

Entitlements to salary and wages and annual leave are recognised when they accrue to employees. This includes the estimated liability for salaries and wages and annual leave as a result of services rendered by employees up to balance date at current rates of pay.

Entitlements to long service leave and retirement gratuities are calculated on an actuarial basis and are based on the reasonable likelihood that they will be earned by employees and paid by the Company.

Notes to the Financial Statements Cont'd/.... For the Year Ended 30 June 2018

Good and Service Tax (GST)

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except for receivables and payables which are recognised inclusive of GST.

Impairment of assets excluding goodwill

At each balance sheet date, the Company reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset or cash-generating unit is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease to the extent of any previous revaluation increase for that asset or cash generating unit that remains in the revaluation reserve.

Any additional impairment is immediately transferred to the statement of comprehensive income via surplus or deficit.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognised as income immediately.

Inventories

Inventories reported in the balance sheet include:

- Log inventories
Valued at net realisable value less estimated point of sale costs.
- Other inventory
Valued at the lower of cost and net realisable value.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less and bank overdrafts.

Financial Instruments

Financial assets and financial liabilities are recognised on the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument.

Notes to the Financial Statements Cont'd/.... For the Year Ended 30 June 2018

Financial Liability and Equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

Standards and Interpretations effective in the current period

Those with disclosure impact:

There are no adoptions this year.

Those with no impact:

Standards issued but not yet effective as at 30 June 2018.

NZ IFRS 9 <i>Financial Instruments – adoption date year ended</i>	30 June 2019
NZ IFRS 15 <i>Revenue from Contracts with Customers – adoption date year ended</i>	30 June 2019

NZ IFRS 9 Financial Instruments will eventually replace NZ IAS 39 Financial Instruments: Recognition and Measurement. NZ IAS 39 is being replaced through the following 3 main phases: Phase 1 Classification and Measurement, Phase 2 Impairment Methodology, and Phase 3 Hedge Accounting. Phase 1 and most of Phase 3 has been completed. NZ IFRS 9 uses a single approach to determine whether a financial asset is measured at amortised cost or fair value, replacing the many different rules in NZ IAS 39. The approach in NZ IFRS 9 is based on how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets. The financial liability requirements are the same as those of NZ IAS 39, except for when an entity elects to designate a financial liability at fair value through the surplus or deficit.

The impact assessment of NZ IFRS 15 has been substantially completed. Based on the work completed to date, no material impact is expected retrospectively or currently on the financial statements.

Adoption of New Revised Standards and Interpretations

No standards have been adopted during the year which have had a material impact on the financial statements. There are no standards in issue but not yet effective which would materially impact the amounts recognised in the financial statements.

CITY FORESTS LTD

Notes to the Financial Statements Cont'd/.... For the Year Ended 30 June 2018

	As at 30 June 2018 \$'000	As at 30 June 2017 \$'000
3. OPERATING REVENUE		
Sales revenue	52,718	39,710
New Zealand carbon credits	6,467	6,182
Gain on sale of property, plant and equipment	482	38
Other revenue	197	309
	59,864	46,239

Accounting Policy

Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and GST.

Revenue from services rendered is recognised when it is probable that the economic benefits associated with the transaction will flow to the entity. The stage of completion at balance date is assessed based on the value of services performed to date as a percentage of the total services to be performed.

Sales of goods are recognised when significant risks and rewards of owning the goods are transferred to the buyer, when the revenue can be measured reliably and when management effectively ceases involvement or control.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

4. OTHER EXPENSES

Audit fees - for audit of financial statements	36	35
Donations	17	12
Loss on sale of property, plant and equipment	181	6
Rental expense on operating leases	71	53
Research expenditure	205	145
Cost of bush applied	4,674	2,394
Shipping costs	7,714	4,785
Write down of land value	1,528	389
Subvention	532	548
Other operating expenses	7,499	4,131
	22,457	12,498

CITY FORESTS LTD

Notes to the Financial Statements Cont'd/.... For the Year Ended 30 June 2018

5. FORESTRY ASSETS

	As at 30 June 2018 \$'000	As at 30 June 2017 \$'000
Balance at the beginning of the year	136,333	123,802
Add Costs capitalised in establishing forests during the year	2,353	2,083
Increase in forest from acquisition	2,575	3,212
Forest revaluation	13,585	9,629
Less Cost of trees harvested	(4,674)	(2,393)
	<u>150,172</u>	<u>136,333</u>
Gains/(losses) arising from changes in fair value less point of sale costs;		
attributable to physical changes	5,219	(6,054)
attributable to price changes	8,620	18,585
	<u>13,839</u>	<u>12,531</u>

The Directors of City Forests Limited revalue its forestry assets annually at 30 June 2018.

The valuation methodology used establishes the fair value of the collective forest crop and an independent market value has been used to establish the forest land value. The NZ IFRS valuation rules require that the value is calculated under the assumption that a stand will not be replanted once felled irrespective of the sustainable forest policy of the Directors. The change in the value of the forest from year to year is reflected in the statement of comprehensive income.

Fair value requires calculating the present value of expected net cash flows using a post-tax discount rate. This discount rate used by the Company is 6.5% (2017 6.5%).

The forestry valuation is subject to a number of assumptions. The ones with the most significant volatility or impact on the valuation are the discount rate applied and log prices adopted. The discount rate adopted was 6.5%; a +/- 50 basis point movement in the discount rate would change the valuation by +\$7.78 mil / -\$7.09 mil. A 10% increase or decrease in assumed log prices would change the valuation by +\$12.09 mil / -\$12.07 mil; (note that these sensitivities are shown are independent and different outcome would result from combined changes in discount and log prices).

At 30 June 2018 the Company owned stands of trees on 17,284 hectares of a total land holding (including lease, Joint Venture & Forestry Right) of 21,094 hectares. During the year the Company harvested approx. 303,922 m³ of logs from its forests.

City Forests Limited is exposed to financial risks associated with USD log price and the USD sawn timber prices. This risk is managed through its financial management policy described within note 11, Financial Instruments. City Forests Limited is a long-term forestry investor that expects log prices to fluctuate within a commodity cycle. It is not possible to hedge against 100% of the price cycle but the Company does manage harvest volumes to minimise the impact of the commodity price cycle over the longer term.

Notes to the Financial Statements Cont'd/.... **For the Year Ended 30 June 2018**

The valuer of the forestry asset was an employee of the Company who has a Bachelor of Forestry Science with Honours, a Post Graduate Certificate in Executive Management and is a member of the New Zealand Institute of Forestry. He has the appropriate knowledge and the skills to complete the valuation.

A peer review of the valuation process and key inputs was conducted by Woodlands Pacific. The peer review was completed with regard to a summary of market transactions at arm's length terms and current market conditions. The peer review confirmed the valuation assumptions include all direct costs and revenues.

Accounting Policy

The fair value of the forest, exclusive of the forest land, is determined at each reporting date. Fair value is equivalent to the NZIF Forest Valuation Standards definition of market value. Fair value is determined using the discounted cash flow methodology and in using this method, financing costs and replanting costs are excluded. The method first determines the current market value of the collective forest and land resource, with land then subtracted at its current market value to provide the value of the forest asset.

The valuation takes into account changes in price over the accounting period through a graduated current to five year average price curve as well as the quantity of trees harvested and the growth that has occurred in the forest. Any change in forest valuation is recorded in the statement of comprehensive income via surplus or deficit.

CITY FORESTS LTD

Notes to the Financial Statements Cont'd/.... For the Year Ended 30 June 2018

6. NEW ZEALAND CARBON CREDITS

The New Zealand Emissions Trading Scheme was enacted under the Climate Change Response Amendment Act 2008 and was made into law on 26th September 2008.

A forest owner with forests established after 31st December 1989, under the Act, may opt to join the Emissions Trading Scheme. Post-89 forests will earn carbon credits (NZU's) from 1st January 2008 and these may be traded within New Zealand. City Forests Limited completed registration of the Post-89 forests under the Emissions Trading Scheme in January 2010. These forests have been sequestering carbon under the scheme since 1st January 2008. Subsequent to our Post-89 registration, the New Zealand Government has allocated City Forests 2,319,923 Post-89 derived NZU's, being the carbon sequestered by these forests during the 2008 to 2018 calendar years. There were 400,000 carbon credit sales for the financial year.

In 2018 3,056 NZUs were surrendered to meet a liability the company had for carbon credits.

The carbon credits are assessed as having an indefinite life as they have no expiry date. As the NZUs are an indefinite life intangible asset they are not amortised but are tested for impairment on an annual basis or when indications of impairment exist.

As at 30th June 2018, 1,280,834 units were unsold (2017 1,369,304). Under the accrual principle, the unsold credits have been valued based on the current market prices and recognised in the financial statements. The value has been carried in the financial statements as follows:

	As at 30 June 2018 \$'000	As at 30 June 2017 \$'000
New Zealand carbon credits	27,024	23,413

In future years there will be a carbon credit liability against a proportion of the carbon credits sequestered from post-1989 forest areas in accordance with New Zealand Emission Trading Scheme Regulations. A proportion of Carbon sequestered from Post-1989 areas will have to be surrendered to compensate for the carbon liability generated from harvesting those forest areas. The intangible asset represents the value of carbon sequestered to date and can be used to settle carbon credit liability on harvesting.

Accounting Policy

Carbon Credits held are treated as intangible assets, and initially recorded at fair value.

- Fair value is cost in the case of purchased units
- Fair value is initial market value in the case of government granted units
- Emissions unit fair value is marked to market (revalued) annually at 30 June subsequent to initial recognition and bi-annually thereafter
- Emissions obligations are recognised as a current or future liability depending on the legislated liability period
- The difference between initial fair value or previous annual revaluations and disposal or revaluation value of the units is recognised in other comprehensive income

CITY FORESTS LTD

Notes to the Financial Statements Cont'd/.... For the Year Ended 30 June 2018

7 PROPERTY, PLANT AND EQUIPMENT

	Land Other Valuation	Forest Land Valuation	Building Cost	Roads Bridges Cost	Plant Equipment Cost	Sub-Total
2018	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Cost or Valuation						
Balance at beginning of year	-	36,144	1,403	7,188	4,470	49,205
Increase through acquisition	-	-	-	-	-	-
Purchases/revaluation	-	7,178	390	698	147	8,413
Disposals	(290)	-	(1,637)	-	(5,814)	(7,741)
Transfer to assets held for sale	290	-	509	-	2,645	3,444
Balance at end of year	-	43,322	665	7,886	1,448	53,321
Accumulated depreciation/impairment						
Balance at beginning of year	-	389	1,279	4,072	4,176	9,916
Depreciation	-	-	6	180	47	233
Impairment	-	1,458	(1,128)	-	(3,178)	(2,848)
Disposals	(30)	-	(260)	-	(2,045)	(2,335)
Transfer to assets held for sale	30	-	260	-	2,054	2,344
	-	1,847	157	4,252	1,054	7,310
Balance at end of year	-	41,475	508	3,634	394	46,011
Comprising – Cost	-	-	508	3,634	394	4,536
Valuation	-	41,475	-	-	-	41,475

The land valuations were obtained from Morice Limited which is the valuation Company used by various other forestry companies. The revaluation movement in the land for the year ended 30 June 2018 was \$2,277k (2017 \$3,584). All other asset classes are shown at cost.

CITY FORESTS LTD

Notes to the Financial Statements Cont'd/.... For the Year Ended 30 June 2018

7. PROPERTY, PLANT AND EQUIPMENT Cont'd/....

		Motor Vehicles	Office Equipment	Work in Progress	Total
2018 Cont'd/....	Sub-Total \$'000	Cost \$'000	Cost \$'000	Cost \$'000	\$'000
Cost or Valuation					
Balance at beginning of year	49,205	694	239	-	50,138
Increase through acquisition	-	-	-	-	-
Purchases/ revaluation	8,413	48	25	28	8,514
Disposals	(7,741)	(198)	(73)	-	(8,012)
Transfer to assets held for sale	3,444	121	83	-	3,648
Balance at end of year	53,321	665	274	28	54,288
Accumulated depreciation					
Balance at beginning of year	9,916	448	206	-	10,570
Depreciation	233	69	14	-	316
Impairment	(2,848)	(77)	(5)	-	(2,930)
Disposals	(2,335)	(115)	(65)	-	(2,515)
Transfer to assets held for sale	2,344	116	82	-	2,541
	7,310	441	231	-	7,982
Balance at end of year	46,011	224	43	28	46,306
Comprising – Cost	4,536	224	43	28	4,831
Valuation	41,475	-	-	-	41,475

Accounting Policy

Property plant and equipment are those assets held by the Company for the purpose of carrying on its business activities on an ongoing basis.

All property, plant and equipment, apart from forestry land, are stated at cost less any subsequent accumulated depreciation and any accumulated impairment losses.

There is no property, plant and equipment whose title is restricted or pledged as security.

Forestry land is stated at its revalued amount, being the fair value at the date of revaluation, determined from market-based evidence by appraisal undertaken by Morice Limited

Self-constructed assets include the direct cost of construction to the extent that they relate to bringing the fixed assets to the location and condition for their intended service.

Revaluations of forestry land are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

CITY FORESTS LTD

Notes to the Financial Statements Cont'd/.... For the Year Ended 30 June 2018

Any revaluation increase is credited to the appropriate revaluation reserve, except to the extent that it reverses a revaluation decrease previously recognised as an expense, in which case the increase is credited to the statement of comprehensive income via other comprehensive income to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of such land is charged as an expense to the extent that it exceeds the balance, if any, held in the revaluation reserve relating to a previous revaluation of that asset.

Depreciation is charged so as to write off the cost or valuation of assets, other than land, forestry land, properties under construction and capital work in progress, on the straight-line basis or diminishing value basis. Rates used have been calculated to allocate the assets cost or valuation less estimated residual value over their estimated remaining useful lives.

Depreciation of these assets commences when the assets are ready for their intended use.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets, or where shorter, over the term of the relevant lease.

Depreciation rates and methods used are as follows:			
	<u>Rate</u>	<u>Method</u>	
• Freehold Buildings	2% - 3%	Straight Line	
• Roads	5% - 24%	Diminishing Value	
• Bridges	2% - 2.4%	Diminishing Value	
• Plant and Equipment	6% - 80.4%	Diminishing Value	
• Fences	10% - 13%	Diminishing Value	
• Motor vehicles	9.6% - 36%	Diminishing Value	
• Office equipment	10% - 60%	Diminishing Value	

Derecognition

Forestry assets and property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the statement of comprehensive income via surplus or deficit in the year the item is derecognised.

CITY FORESTS LIMITED

Notes to the Financial Statements Cont'd/.... For the Year Ended 30 June 2018

7. PROPERTY, PLANT AND EQUIPMENT Cont'd/....

	Land Other Valuation	Forest Land Valuation	Buildings Cost	Roads Bridges Cost	Plant Equipment Cost	Sub-Total
2017	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
		(restated) ¹				(restated) ¹
Cost or Valuation						
Balance at beginning of year	305	31,217	1,914	7,183	7,445	48,064
Increase through acquisition	-	-	-	-	-	-
Purchases/revaluation	(13)	4,927	-	5	60	4,979
Disposals	(2)	-	(2)	-	(390)	(394)
Transfer to assets held for sale	(290)	-	(509)	-	(2,645)	(3,444)
Reclassified as intangibles	-	-	-	-	-	-
Balance at end of year		36,144	1,403	7,188	4,470	49,205
Accumulated depreciation						
Balance at beginning of year	30	-	1,524	3,904	6,486	11,944
Depreciation	-	-	16	168	81	265
Impairment	-	389	-	-	-	389
Disposals	-	-	(1)	-	(337)	(338)
Transfer to assets held for sale	(30)	-	(260)	-	(2,054)	(2,344)
	-	389	1,279	4,072	4,176	9,916
Balance at end of year	-	35,755	124	3,116	294	39,289
Comprising - Cost	-	-	124	3,116	294	3,534
Valuation	-	35,755	-	-	-	35,755

CITY FORESTS LIMITED

Notes to the Financial Statements Cont'd/.... For the Year Ended 30 June 2018

7. PROPERTY, PLANT AND EQUIPMENT Cont'd/....

	Sub- Total \$'000	Motor Vehicles Cost \$'000	Office Equipment Cost \$'000	Total \$'000
2017 Cont'd/....				
Cost or Valuation				
Balance at beginning of year	48,064	762	307	49,133
Increase through acquisition	-	-	-	-
Purchases/ revaluation	4,979	100	18	5,097
Disposals	(394)	(47)	(3)	(444)
Transfer to property held for sale	(3,444)	(121)	(83)	(3,648)
Reclassified as intangibles	-	-	-	-
Balance at end of year	49,205	694	239	50,138
Accumulated depreciation				
Balance at beginning of year	11,944	514	277	12,735
Reclassified as intangibles	-	-	-	-
Depreciation	265	78	14	357
Impairment	389	-	-	389
Disposals	(338)	(29)	(3)	(370)
Transfer to property held for sale	(2,344)	(115)	(82)	(2,541)
	9,916	448	206	10,570
Balance at end of year	39,289	246	33	39,568
Comprising - Cost	3,534	246	33	3,813
Valuation	35,755	-	-	35,755

CITY FORESTS LIMITED

Notes to the Financial Statements Cont'd/.... For the Year Ended 30 June 2018

	As at 30 June 2018 \$'000	As at 30 June 2017 \$'000
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8. EQUITY - Share Capital

Issued Capital

25,691	25,691
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The Company has issued 25,690,522 ordinary shares and these are fully paid. Fully paid ordinary shares carry 1 vote per share and carry the right to dividends and pro rata share of net assets on winding up of the Company.

9. RESERVES

Forestry Reserve

The forestry reserve arises with the revaluation of the forestry assets which is put to the statement of comprehensive income. There is a transfer between retained earnings and the forestry reserve of the revaluation net of deferred taxation.

Balance at beginning of the year	62,732	55,799
Transfer from retained earnings	9,782	6,933
Balance at the end of the year	72,514	62,732

Hedging Reserve

Balance at beginning of the year	(16)	(955)
Gain/(loss) in fair value movement in derivatives	(778)	939
Balance at the end of the year	(794)	(16)

Land Revaluation Reserve

Balance at beginning of the year (restated) ¹	23,273	19,689
Forestry land revaluations	2,277	3,584
Balance at the end of the year	25,550	23,273

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of the hedging instruments relating to interest payments and foreign exchange transactions that have not yet occurred.

Carbon Credit Reserve

Balance at beginning of the year	10,820	11,290
Gain in carbon credits above initial recognition value	3,873	(470)
Less transferred to retained earnings	(6,282)	-
Balance at the end of the year	8,411	10,820

The amount held in the reserve is net of deferred tax where relevant. Any value above initial recognition is held in the Carbon Credit revaluation reserve.

¹ Refer Note 2

CITY FORESTS LIMITED

Notes to the Financial Statements Cont'd/.... For the Year Ended 30 June 2018

	As at 30 June 2018 \$'000	As at 30 June 2017 \$'000
10. RETAINED EARNINGS		
Balance at the beginning of the year	16,558	9,387
Net profit/(loss) for the year	23,913	20,104
Dividend distributions	(8,000)	(6,000)
Transfer to forestry reserve	(9,782)	(6,933)
Transfer from carbon credit reserve	6,282	-
Balance at the end of the year	28,971	16,558

11 FINANCIAL INSTRUMENTS

Currency derivatives

Currency Risk

The Company manages risk associated with exchange rate fluctuations through the use of currency derivatives to hedge significant future export sales. The foreign exchange policy of City Forests Limited allows foreign exchange forward contracts and options in the management of its exchange rate exposures. The instruments purchased are only against the currency in which the exports are sold.

At balance sheet date, the total notional amount of outstanding forward foreign exchange contracts to which City Forests Limited is committed are as follows:

Outstanding Contracts	Average exchange rate 2018	Foreign currency 2018 FC'000	Contract value 2018 NZD'000	Fair value 2018 NZD'000	Fair value 2017 NZD'000
Cashflow hedges					
Sell USD					
Current	0.705	9,600	13,612	(554)	385
Non current	0.704	4,800	6,810	(245)	118
				(799)	503

CITY FORESTS LIMITED

Notes to the Financial Statements Cont'd/.... For the Year Ended 30 June 2018

11. FINANCIAL INSTRUMENTS Cont'd/....

<u>2018</u>	<1 yr	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	5 yrs	Total
<u>Financial Assets</u>							
Trade and other receivables	2,677	-	-	-	-	-	2,677
Derivative financial instruments	-	-	-	-	-	-	-
	<u>2,667</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,677</u>
<u>Financial Liabilities</u>							
Trade and other payables	2,747	-	-	-	-	-	2,747
Derivative financial instruments	645	245	-	212	-	-	1,102
Borrowings	261	-	-	263	310	14,266	15,100
	<u>3,653</u>	<u>245</u>	<u>-</u>	<u>475</u>	<u>310</u>	<u>14,266</u>	<u>18,949</u>
 <u>2017</u>	 <1 yr	 1-2 yrs	 2-3 yrs	 3-4 yrs	 4-5 yrs	 5 yrs	 Total
<u>Financial Assets</u>							
Trade and other receivables	2,909	-	-	-	-	-	2,909
Derivative financial instruments	426	118	-	-	-	-	544
	<u>3,335</u>	<u>118</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,453</u>
<u>Financial Liabilities</u>							
Trade and other payables	3,170	-	-	-	-	-	3,170
Derivative financial instruments	40	319	-	-	206	-	565
Borrowings	2,820	2,454	1,686	119	-	13,449	20,528
	<u>6,030</u>	<u>2,773</u>	<u>1,686</u>	<u>119</u>	<u>206</u>	<u>13,449</u>	<u>24,263</u>

Interest Rate Swaps

Credit and Interest Rate Risk

The Company uses interest rate swaps to manage its exposure to interest rate movements on its multi-option facility borrowings by swapping a proportion of those borrowings from floating rates to fixed rates. The treasury policy recommends that the level of the fixed interest hedge should be limited to a series of ranges within set debt time periods.

The interest rate agreements are held with independent and high credit quality financial institutions in accordance with group credit policy. The credit risk is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies. The carrying amount of financial assets recorded in the financial statements represents the Company's maximum exposure to credit risk.

CITY FORESTS LIMITED

Notes to the Financial Statements Cont'd/.... For the Year Ended 30 June 2018

11. FINANCIAL INSTRUMENTS Cont'd/....

The notional principal outstanding with regard to the interest rate swaps is:

	As at 30 June 2018 \$'000	As at 30 June 2017 \$'000
Maturing in less than one year	5,000	-
Maturing between one and five years	3,000	8,000
Maturing after five years	-	-
	<u>8,000</u>	<u>8,000</u>

Liquidity Risk

Liquidity risk represents the Company's ability to meet its contractual obligations. The Company evaluates its liquidity requirements on an ongoing basis. In general, the Company generates sufficient cash flows from its operating activities to meet its obligations arising from its financial liabilities and has credit lines in place to cover potential shortfalls.

Credit Risk

The Company's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful debts.

The Company has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

Sensitivity Analysis

Based on historic movements and volatilities the following movements are reasonably possible over a twelve-month period:

- Proportional foreign exchange rate movement of -10% (depreciation of NZD) and a +10% (appreciation of the NZD) against the USD, from the year end rate of .6754.
- A parallel shift of +1% / -1% in the NZD market interest rate from the year end 90 day BBFR of 2.01%.

CITY FORESTS LIMITED

Notes to the Financial Statements Cont'd/.... For the Year Ended 30 June 2018

11. FINANCIAL INSTRUMENTS Cont'd/....

Should these movements occur, the impact on profit and loss and equity for each category of financial instrument held at balance date is presented below. The movements are illustrative only.

	Carrying amount \$'000	Interest rate		Foreign exchange	
		-100bp	+100bp	-10%	+10%
		Equity Profit	Equity Profit	Equity Profit	Equity Profit
<u>Financial Assets</u>					
<u>Derivatives</u>					
Currency Hedges – Sell USD	20,423	-	-	-	(1,938)
Other Financial Assets	1,879	-	-	-	(171)
<u>Financial Liabilities</u>					
Interest rate swaps	8,000	(4)	114	-	-
Total increase/(decrease)		(4)	114	2,578	(2,109)

1. Accounts receivable within City Forests Limited include \$1.269 million of USD denominated receivables at year end.
2. Derivatives subject to the hedge accounting regime are managed by the Company to be 100% effective and thus there is no sensitivity to equity change in either interest rates or exchange rates.
3. Borrowings are subject to an interest rate hedging policy. Sensitivity to any movement in the interest rate is limited to the effect on the amount of floating rate debt that exceeds the amount of the fixed rate hedge.
4. The carrying value of the derivative has been calculated based on rates on each individual contract.

CITY FORESTS LIMITED

Notes to the Financial Statements Cont'd/.... For the Year Ended 30 June 2018

11. FINANCIAL INSTRUMENTS Cont'd/....

Fair value of financial instruments

Fair value measurements recognised in the statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 Fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 Fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 Fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	2018			
	Level 1	Level 2	Level 3	Total
	NZ \$'000	NZ \$'000	NZ \$'000	NZ \$'000
Financial assets				
Derivative financial assets	-	-	-	-
New Zealand carbon credits	27,024	-	-	27,024
	27,024	-	-	27,024
Financial liabilities				
Derivative financial liabilities	-	799	-	799
	-	799	-	799

	2017			
	Level 1	Level 2	Level 3	Total
	NZ \$'000	NZ \$'000	NZ \$'000	NZ \$'000
Financial assets				
Derivative financial assets	-	544	-	544
New Zealand carbon credits	23,413	-	-	23,414
	23,413	544	-	23,958
Financial liabilities				
Derivative financial liabilities	-	565	-	565
	-	565	-	565

CITY FORESTS LIMITED

Notes to the Financial Statements Cont'd/.... For the Year Ended 30 June 2018

Accounting Policy

The Company's activities expose it primarily to the financial risks of changes in foreign currency exchange rates, interest rates and commodity prices. The Company uses foreign exchange forward contracts, commodity swaps and interest rate swap contracts to hedge these exposures.

The Company does not use derivative financial instruments for speculative purposes. However, derivatives that do not qualify for hedge accounting, under the specific NZ IFRS rules, are accounted for as trading instruments with fair value gains/losses being taken directly to the statement of comprehensive income via other comprehensive income.

The use of financial derivatives is governed by the Company's policy approved by the board of Directors. The policies provide written principles on the use of financial derivatives.

Derivative financial instruments are recognised at fair value on the date that the derivative is entered into and are subsequently remeasured to their fair value. The fair value on initial recognition is the transaction price. Subsequently fair values are based on independent bid prices quoted in active markets as provided to us by our banker counter parties.

Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in equity and the ineffective portion is recognised immediately in the statement of comprehensive income via surplus or deficit. If the cash flow hedge of a firm commitment or forecasted transaction results in the recognition of an asset or a liability, then, at the time the asset or liability is recognised, the associated gains or losses on the derivative that had previously been recognised in equity are included in the initial measurement of the asset or liability. For hedges that do not result in the recognition of an asset or a liability, amounts deferred in equity are recognised in the statement of comprehensive income via other comprehensive income in the same year in which the hedged item affects net profit or loss.

For an effective hedge of an exposure to changes in the fair value, the hedged item is adjusted for changes in fair value attributable to the risk being hedged with the corresponding entry in the statement of comprehensive income via other comprehensive income. Gains or losses from re-measuring the derivative, or for non-derivatives the foreign currency component of its carrying amount, are recognised in the statement of comprehensive income via other comprehensive income.

The fair value of a hedging derivative is classified as a non current asset or liability if the remaining maturity of the hedge relationship is more than twelve months and as a current liability if the remaining maturity of the hedge relationship is less than twelve months.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the statement of comprehensive income via surplus or deficit as they arise. Derivatives not designated for effective hedge relationship are classified as current assets or liabilities.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the statement of comprehensive income via surplus or deficit for the year.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not carried at fair value with unrealised gains or losses reported in the statement of comprehensive income via surplus or deficit.

CITY FORESTS LIMITED

Notes to the Financial Statements Cont'd/.... For the Year Ended 30 June 2018

12. TERM BORROWINGS

	As at 30 June 2018 \$'000	As at 30 June 2017 \$'000
Dunedin City Treasury loan facility	15,100	15,350
Forestry loans	-	5,178
	<u>15,100</u>	<u>20,528</u>

The forestry loans are from the Ministry of Primary Industries. They are fixed rate loans secured by registered interest over certain land assets and are covered by repayment insurance. Each loan is associated with an individual stand of trees and is repayable by equal quarterly repayments over the 10 years commencing January 2012. The interest capitalised for the year ended 30 June 2018 was \$254,887 (2017 \$346,277). These loans have been fully repaid as at 29 June 2018.

There is no security over the Dunedin City Treasury loan. This is a \$22 m evergreen unsecured facility.

The weighted average interest rate for the Dunedin City Treasury Limited loan facility, ranged between 4.5% and 7.53% (2017 7.53 – 5.4%).

The weighted average interest rates for the forestry loans is 6.09%, (2017 6.09%). There are no covenants on the term borrowings (2017 nil).

Directors estimate the fair value of the Company's borrowings, by discounting their future cash flows at the market rate, to be as follows:

Multi-option note facility	15,100	15,350
Forestry loans	-	4,671

The repayment period on the term borrowings is as follows:

Current	-	1,686
Non Current	15,100	18,842
	<u>15,100</u>	<u>20,528</u>

CITY FORESTS LIMITED

Notes to the Financial Statements Cont'd/.... For the Year Ended 30 June 2018

Accounting Policy

Borrowings

Borrowings are initially recorded net of directly attributable transaction costs and are measured at subsequent reporting dates at amortised cost. Finance charges, premiums payable on settlement or redemption and direct costs are accounted for on an accrual basis to the statement of comprehensive income via surplus or deficit using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the year in which they arise.

Government Loans

Forestry term liabilities are Ministry of Primary Industries Repayable Loans. Interest is calculated six monthly on the repayable loans. The Company is repaying these loans over a 10 year period commencing 1st January 2012.

CITY FORESTS LIMITED

Notes to the Financial Statements Cont'd/.... For the Year Ended 30 June 2018

13. INCOME TAX

Net profit from continued operations	33,055	27,524
Profit before income tax	<u>33,055</u>	<u>27,524</u>
 Tax thereon at 28%	 9,255	 7,707
 <i>Plus/(less) the Tax Effect of Differences</i>		
Income not assessable for taxation	(87)	(5)
Expenditure not deductible for taxation	440	116
Under / (over) tax provision in prior years	(8)	(3)
Losses utilised from Dunedin Stadium Properties Ltd	(384)	(395)
Reversal of deferred tax liability on disposal of buildings & land	(74)	-
 Tax effect of differences	 <u>(113)</u>	 <u>(287)</u>
 Tax expense	 <u>9,142</u>	 <u>7,420</u>
 Tax expense made up as follows:		
Continued operations	9,142	7,420
	<u>9,142</u>	<u>7,420</u>
 Effective tax rate	 26.6%	 27.0%
<i>Represented by</i>		
Current tax provision	4,655	2,626
Deferred tax provision	4,495	4,797
Under / (over) tax provision in prior years	(8)	(3)
	<u>9,142</u>	<u>7,420</u>

Tax Rate

The tax rate used in the above calculation is the corporate tax rate of 28% payable by New Zealand corporate entities on taxable profits under New Zealand law.

The Company is part of a consolidated tax group and therefore does not maintain its own imputation credit account.

Accounting Policy

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the statement of comprehensive income via surplus or deficit because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted by the balance sheet date.

CITY FORESTS LIMITED

Notes to the Financial Statements Cont'd/.... For the Year Ended 30 June 2018

14. DEFERRED TAX LIABILITIES AND ASSETS

	2018 \$'000	2018 \$'000	2018 \$'000	2018 \$'000	2018 \$'000	2018 \$'000
	Opening Balance Sheet	Charged To Equity	Charged to Income	Closing Balance Sheet Assets	Liabilities	Net
Property, plant and equipment	(14)	-	343	-	329	329
Employee provisions	(55)	-	(3)	(58)	-	(58)
Forest	24,396	-	3,804	-	28,200	28,200
Capitalised forestry costs	10,178	-	(384)	-	9,794	9,794
Revaluations of foreign exchange contracts	141	(364)	-	(223)	-	(223)
Revaluations of interest rate swaps	(146)	61	-	(85)	-	(85)
Revaluation of carbon credits	5,382	1,285	746	-	7,413	7,413
Other	8	-	(8)	-	-	-
Balance at the end of the year	39,890	982	4,498	(366)	45,736	45,370

	2017 \$'000	2017 \$'000	2017 \$'000	2017 \$'000	2017 \$'000	2017 \$'000
Property, plant and equipment	(46)	-	32	(14)	-	(14)
Employee provisions	(54)	-	(1)	(55)	-	(55)
Forest	21,700	-	2,696	-	24,396	24,396
Capitalised forestry costs	9,861	-	317	-	10,178	10,178
Revaluations of foreign exchange contracts	(104)	245	-	-	141	141
Revaluations of interest rate swaps	(266)	120	-	(146)	-	(146)
Revaluations of carbon credits	3,773	(116)	1,725	-	5,382	5,382
Other	7	-	1	-	8	8
Balance at the end of the year	34,871	249	4,770	(215)	40,105	39,890

Accounting Policy

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

CITY FORESTS LIMITED

Notes to the Financial Statements Cont'd/.... For the Year Ended 30 June 2018

Deferred tax is calculated at the tax rates that are expected to apply in the year when the liability is settled or the asset is realised. Deferred tax is charged or credited in the statement of comprehensive income via surplus or deficit, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

15. RELATED PARTY TRANSACTIONS

Transactions with Dunedin City Council Group

The Company purchased goods and services and traded with Dunedin City Council Group in respect of the following transactions:

	As at 30 June 2018 \$'000	As at 30 June 2017 \$'000
Purchases of goods and services from the Dunedin City Council:		
Rates and property rentals	16	9
Other	2	4
	<u>18</u>	<u>13</u>
Payable to Dunedin City Council	<u>-</u>	<u>-</u>
Dunedin City Holdings Limited		
Managing Services	50	50
Dividends	8,000	6,000
	<u>8,050</u>	<u>6,050</u>
Delta Utility Services Limited		
Roading & Earthmoving Services	<u>380</u>	<u>342</u>
Payable to Delta Utility Services Limited	<u>42</u>	<u>34</u>
Subvention payable:		
Dunedin Stadium Property Limited	532	548
	<u>532</u>	<u>548</u>
The subvention payments were made for the tax effect of the losses transferred		
Loan from Dunedin City Treasury Limited as at balance date	<u>15,100</u>	<u>15,350</u>
Loans received during the year	8,800	6,410
Loans paid during the year	9,050	3,060
Interest due to Dunedin City Treasury Limited as at balance date	70	86
Interest paid during the year	666	844
Interest rebate received	12	8
Net interest	<u>654</u>	<u>832</u>
Other payments including facility fees	-	-

CITY FORESTS LIMITED

Notes to the Financial Statements Cont'd/.... For the Year Ended 30 June 2018

15. RELATED PARTY TRANSACTIONS Cont'd/....

The Directors of City Forests Limited sat on the Boards of the following organisations during the year. Details of the type and value of services purchased from each organisation during the financial year covered by this report are as follows.

Transactions with companies in which Directors have an interest:

- During the course of the year:

	Year ended 30 June 2018 \$'000	Year ended 30 June 2017 \$'000
Mr T D Allison had related party interests with the following organisations during the year.		
Director, Otago & Southland Employers Association Subscription	1	1
Mr M C Horne had related party interests with the following organisations during the year.		
Director, Palmers Mechanical Limited.	27	21
Director, Deloitte Financial Services/Directorship	133	144

At year end the following amounts were owed to and from the Companies in which Directors have an interest:

Payable to Palmers Mechanical Limited	24	-
Payable to Deloitte	9	10

Compensation of key management personnel

The remuneration of Directors and other members of key management during the year was:

Salaries and Short-term benefits	977	943
Post-Employment benefit	-	-
	977	943

The remuneration of Directors is agreed annually by the Dunedin City Holdings Limited in accordance with the policies that it sets from time to time. The remuneration of management is determined on the recommendation of the board committee having regard to the performance of individuals and market trends.

CITY FORESTS LIMITED

Notes to the Financial Statements Cont'd/....

For the Year Ended 30 June 2018

16 RECONCILIATION OF NET SURPLUS FOR THE YEAR TO CASHFLOWS FROM OPERATING ACTIVITIES

	As at 30 June 2018 \$'000	As at 30 June 2017 \$'000
Net gain for the year	23,913	20,104
<i>Items Not Involving Cash Flows</i>		
Depreciation and loss on sale	506	381
Depletion of forest (cost of bush)	4,674	2,394
Deferred tax	4,497	4,770
Depreciation recovered/capital gains	(481)	(38)
Forestry revaluation	(13,585)	(9,629)
Allocation of carbon credits/revaluation carbon credits/surrender	(6,461)	(6,164)
Write down value of land	1,528	389
Other non-cash items		
<i>Impact of Changes in Working Capital Items</i>		
(Increase)/Decrease in accounts receivable	232	1,252
(Increase)/Decrease in inventories	(237)	(869)
(Increase)/Decrease in prepayments	285	(151)
(Increase)/Decrease in tax refund due	1,633	(471)
Increase/(Decrease) in accounts payable	(1,039)	218
Increase/(Decrease) in other current liabilities	(112)	562
Net cash inflows/(outflows) from operating activities	15,353	12,748

CITY FORESTS LIMITED

Notes to the Financial Statements Cont'd/.... For the Year Ended 30 June 2018

17. ASSETS HELD FOR SALE

	30 June 2018 \$'000	30 June 2017 \$'000
Freehold land held for sale	-	275
Assets relating to property classified as held for sale	-	847
	-	1,122

The company was sold in 2018 the assets classified as held for sale.

18. CAPITAL EXPENDITURE COMMITMENTS

There are no capital commitments as at 30 June 2018 (2017 \$nil)

19. CONTINGENT ASSETS OR LIABILITIES

There are no contingent assets or liabilities as at 30 June 2018 (2017 \$nil)

20. LEASE COMMITMENTS

(i) Minimum operating lease commitments

	As at 30 June 2018 \$'000	As at 30 June 2017 \$'000
Payable within one year	91	37
Payable between one to five years	174	-
Payable later than five years	-	-
	265	37

Building lease term is for 3 years commencing June 2018 with two 3 years right of renewal.

Accounting Policy

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

CITY FORESTS LIMITED

Notes to the Financial Statements Cont'd/.... For the Year Ended 30 June 2018

The Company As Lessor

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Company's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Company's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

The Company As Lessee

Assets held under finance leases are recognised as assets of the Company at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability.

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease.

Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

21. RECONCILIATION OF LIABILITIES FROM FINANCING ACTIVITIES

	2017	Cashflow	Capitalised Interest	Non Cash Changes		2018
				Foreign Exchange Movement	Fair Value Changes	
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Long term borrowings	20,528	(5,683)	255	-	-	15,100
Derivative financial instruments	525	-	-	-	(68)	457
Short term derivative financial instruments	40	-	-	-	605	645
	21,093	(5,683)	255	-	537	16,202

	2016	Cashflow	Capitalised Interest	Non Cash Changes		2017
				Foreign Exchange Movement	Fair Value Changes	
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Long term borrowings	18,518	1,664	346	-	-	20,528
Derivative financial instruments	947	-	-	-	(422)	525
Short term derivative financial instruments	524	-	-	-	(484)	40
	19,989	1,664	346	-	(906)	21,093

CITY FORESTS LIMITED

STATEMENT OF SERVICE PERFORMANCE

For the Year Ended 30 June 2018

The principal activities of the Company are the growing, harvesting, processing and marketing of forest products from plantations it owns.

<u>Performance Targets</u>	<u>Achievement</u>
1a. The Company will achieve a 6% post-tax (or greater) return on shareholders' funds measured on a 3 year rolling average basis	Three year rolling average return on shareholders' funds is 14.2%.
1b. A comprehensive review of the Company's long term strategic plan will have been completed which meets the objective of a 6% post-tax return on shareholders' funds measured on a 3 year rolling average basis.	Strategy day held on 8 th June 2018 involving the Board and Senior Managers. The Company's long term strategic plan was reviewed and adopted by the shareholder during the annual budget and statement of intent process. The plan incorporates a return on shareholders' funds of; 12.8%, 10.2% and 6.9% for the first 3 years measured on a forecast 3 year rolling average basis.
1c. Opportunities for expanding the Company's scale will have been investigated.	The strategic plan incorporates a forest estate expansion program. Three new property purchases total 706ha occurred during the year and a number of opportunities were investigated. The Company divested in the Milburn Wood Processing Plant including 10.7ha of land.
2a. No single customer will have received more than 30% of the Company's annual harvest by volume.	Our largest customer Pan Pac Otago Limited received 12.3% of the Company's annual harvest volume.
2b. The Company will realise financial opportunities from the sale of Carbon stored in the Company forests.	The Company has regularly monitored Carbon sales price during the period and considered its Carbon Sales policy at board level. 400,000 NZU sales occurred during the period.
2c. The Company will incorporate Carbon accounting in the strategic plan in accordance with the New Zealand Emissions Trading Scheme (ETS).	The Company's strategy plan incorporates Carbon sales. The future Carbon sequestration and surrender obligations forecast in accordance with the Company's ETS obligations are recognised in the Forest Valuation and Strategic 10 year plan.
2d. The Company will balance and track exposure to domestic and export markets	Domestic log production was 38.1% by volume. (44.3% last year). Export log sales were 61.9% by volume.
3a. The Company will meet its annual supply commitments to domestic customers.	On an annualised basis all customers received their contracted volumes within plus or minus 10%. A number of domestic supply commitments were varied during the year at the request of the customer.
3b. The Company will meet its volume commitments to export shipping and export customer contracts.	All export commitments were met however purchase wood volumes were needed to supplement Company production for some shipments.

CITY FORESTS LIMITED

<u>Performance Targets</u>	<u>Achievement</u>
<u>Performance Targets</u>	<u>Achievement</u>
3c. Log Quality; log deliveries will be at least 95% within specification measured over a 12 month average basis.	Log quality sampling of 2222 logs undertaken during the period found 2.84% were out of specification.
4a. The annual harvest as detailed in the strategic plan will be within +/- 20% of the long term sustainable yield.	The annual harvest from the Company forest estate during the year was 303,922m ³ including billet wood. This is 101.4% of the sustainable yield of 300,000m ³ . Forecast harvest levels in the long term strategic plan for the next 3 years are; 308,446m ³ , 308,557m ³ and 296,066m ³ . All are within +/- 20% of the sustainable yield.
4b. The Company will carry out annual forest inventory to measure and verify forest yield. The number of inventory plots measured will be reported.	The Company completed 474 inventory plots during the period.
4c. An annual forest health surveillance program will be in place to assess the forest estate for pests and diseases, as part of the National Surveillance Program	The forest industry wide biosecurity surveillance program was operational during the year.
4d. The annual fire plan will be updated and operational by September each year.	Fire plan update was completed in September 2017 prior to the start of the fire season.
4e. The Company will actively participate in regional land use planning processes.	The Company actively participated with the Otago Regional Council's implementation of the National Environmental Standard for Plantation Forestry.
5a. The Company will have reviewed the best species and silvicultural management plan to apply to annual operational areas. The Company will report annually on percentage of pruned area by forest as a percentage of stocked P.rad area.	A comprehensive forest growing performance improvement program continued during the year incorporating input from Scion lead researchers. Pruned P.rad Percentage by Forest is: Silverpeaks; 62% Flagstaff; 74% Waipori; 30% Tokoititi; 43% Total; 45%
6a. The Company will participate in Industry Research Consortia (via the Forest levy) to ensure research objectives are in line with Company Strategy and to gain financial leverage to receive research objectives.	The Company has paid the Forest Growers Levy. Two staff are members of committees (through the Forest Owners Association) which are part of the process of allocating levy research funds. The Company Forest Levy contribution is pooled with industry and Government funds achieving considerable financial leverage enabling significant research to be undertaken.
6b. At least one new forest management technique will be introduced as a result of research findings.	Forest management thinning plans have been modified to increase site productivity as a result of research results. A significant long term productivity trial is being established in Tokoititi Forest.

Performance Targets

Achievement

CITY FORESTS LIMITED

<u>Performance Targets</u>	<u>Achievement</u>
6c. The Company will participate in environmental research to minimise the use of chemicals in compliance with FSC Standards and Requirements.	Company staff are represented on the Forest Owners Association, Forest Environment Committee which recommends and monitors Forest Industry Levy research spend on chemical trials. Herbicide and cutover over-sowing testing was conducted during the period.
7a The Company will maintain supply arrangements with Otago and Southland wood processors provided customers match (or better) alternative supply options.	Otago and Southland wood processors receive supply volumes in accordance with the annual plan. Pricing is negotiated each quarter. Customers have been given the option to decline or reduce supply if they are unable to match returns from alternative supply options (log export) and this occurred by agreement with some customers for limited periods during the year.
7b Annual supply volumes to major wood processors (Pan Pac, Craigpine, Niagara & Dongwha) will be tracked and reported.	Otago & Southland wood processors were supplied the following volumes during the period: Pan Pac: 37,235m ³ Craigpine: 17,734m ³ Niagara: 13,149m ³ Hollows: 10,207m ³ Dongwha: 12,380m ³ Bioenergy: 7834m ³
7c. The volume of wood supplied to Bioenergy uses(excluding Firewood)	
8a. Lost time accident rates for staff and contractors will be reduced to a maximum 25 lost time injuries per 1,000,000 hours.	Lost time accident rate for staff and contractors was 31.7 lost time injuries per 1,000,000 hours. (7.1 last year)
8b. The Company will carry out pre-employment, just cause and random drug & alcohol testing of staff and the contract workforce. The number of tests and percentage of positive tests results will be reported.	116 tests were conducted during the period. One positive random test was recorded, being 0.86%.
8c. Maintain Forest Stewardship Council Certification of the Company's forests.	Forest Stewardship Council Certification was maintained following audit in 2017.
8d. A current forest management plan will be in place (as required by FSC standards) which identifies social and environmental, as well as economic outputs.	The Company has a set of comprehensive forest management plans that have been externally audited as part of the Company maintaining FSC certification.
8e. The Company will work with partners (Doc, University of Otago etc) to maintain and enhance are threatened and endangered (RT&E) species on and around the Company estate. Sponsorship amounts for these activities will be reported annually.	Sponsorship of \$5000 was donated to research and conservation of the NZ Falcon in a collaborated research project with a neighbouring forest owner.

CITY FORESTS LIMITED

<u>Performance Targets</u>	<u>Achievement</u>
	<u>Achievement</u>
9a. The Company will have in place an environmental management system which will include procedures for sustainability monitoring. Results of water sampling and reserve area environmental assessments will be publically available on the Company's website.	An environmental management system is in place with on-going monitoring of environmental values. This is available on the Company's website and includes water, soil disturbance and reserve biodiversity monitoring.
10a. Every staff member will have a training plan.	Forest staff members have training plans. Other training provided as necessary. Contractors have training plans for their employees.
10b. Harvesting and Silvicultural Contractors will be required to have training plans in place for their employees. The Company will report on the number of National Certificates achieved by its workforce each year	Company Staff, Contractors and their employees achieved 11 National Certificates during the year.
10c. The Company will engage with its contractors to participate in Modern Apprenticeship programs. The number of apprentices working in Company operations will be reported each year.	At 30 June 2018 no modern apprentices were employed in Company operations as all have completed their apprenticeships.
10d. Each harvesting crew will utilise trained; tree fellers, breaker outs and log makers.	Each harvest crew has multiple trained employees for all three listed tasks. A training matrix is in place to track compliance.
10e. There will be "nil" instances of non-compliance with the Company's EEO policy.	There were no instances of non-compliance with the Company's EEO policy.
11a. The Company's forest management plans will have a section allocated to Recreation and Educational use of the forests.	The Company's forest management plans have sections allocated to recreation and education.
11b. The Company will maintain a Forest Access Permit system, track and report on recreational use statistics.	Recreation use is monitored through forest access permit issuance. 201 forest access permits were issued during the year.
11c. The Company will track and report on the distance of public walking and mountain bike tracks in the Company's forests.	The Company has 8.2km of walking tracks and 20.9km of mountain bike tracks in its forests.
12a. To contribute to, or assist where possible, with the Dunedin City Council community outcomes (as listed in the Annual Plan). The Company will be mindful the ultimate shareholder is the custodian of the community's interest and accepts that a greater need for consultation may be required.	The Company's financial, sustainability, environmental and recreational achievements compliment the annual plan and are reported quarterly by exception to the ultimate shareholder (DCC) by the Holding Company. No issues of conflict with the DCC Annual plan have been identified and therefore no additional consultation has been required.
12b. Kaitiakitanga (Guardianship and Protection). To purchase green fields and / or established forests as economic conditions allow.	Company has purchased 706ha of land during the period incorporating approximately 78ha of standing forest.

CITY FORESTS LIMITED

	<u>Performance Targets</u>		<u>Achievement</u>	
	<u>Performance Targets</u>		<u>Achievement</u>	
13a	Profit before income tax	14,887	Profit before income tax	33,055
13b	Profit after income tax	10,714	Profit after income tax	23,913
13c	Shareholders' equity	134,362	Shareholders' equity	160,343
13d	Normal dividend	5,000	Normal dividend	5,000
13e	Special dividend	-	Special dividend	3,000
13f	Operating cashflow	11,994	Operating cashflow	15,353
13g	Capex	4,555	Capex	6,236
13h	Term debt	22,593	Term debt	15,100

Independent Auditor's Report

To the readers of City Forests Limited's financial statements and statement of service performance for the year ended 30 June 2018

The Auditor-General is the auditor of City Forests Limited (the company). The Auditor-General has appointed me, Julian Tan, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements and statement of service performance of the company on his behalf.

Opinion

We have audited:

- the financial statements of the company on pages 18 to 53, that comprise the statement of financial position as at 30 June 2018, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information; and
- the statement of service performance of the company on pages 54 to 58.

In our opinion:

- the financial statements of the company on pages 18 to 53:
 - present fairly, in all material respects:
 - its financial position as at 30 June 2018; and
 - its financial performance and cash flows for the year then ended; and
 - comply with generally accepted accounting practice in New Zealand in accordance with New Zealand equivalents to International Financial Reporting Standards; and
- the statement of service performance of the company on pages 54 to 58 presents fairly, in all material respects, the company's actual performance compared against the performance targets and other measures by which performance was judged in relation to the company's objectives for the year ended 30 June 2018.

Our audit was completed on 1 October 2018. This is the date at which our opinion is expressed.

The basis for our opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and our responsibilities relating to the financial statements and the statement of service performance, we comment on other information, and we explain our independence.

Basis for our opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the Responsibilities of the auditor section of our report.

We have fulfilled our responsibilities in accordance with the Auditor-General's Auditing Standards.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of the Board of Directors for the financial statements and the statement of service performance

The Board of Directors is responsible on behalf of the company for preparing financial statements that are fairly presented and that comply with generally accepted accounting practice in New Zealand. The Board of Directors is also responsible for preparing the statement of service performance for the company.

The Board of Directors is responsible for such internal control as it determines is necessary to enable it to prepare financial statements and statement of service performance that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements and the statement of service performance, the Board of Directors is responsible on behalf of the company for assessing the company's ability to continue as a going concern. The Board of Directors is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless the Board of Directors intends to liquidate the company or to cease operations, or has no realistic alternative but to do so.

The Board of Directors' responsibilities arise from the Local Government Act 2002.

Responsibilities of the auditor for the audit of the financial statements and the statement of service performance

Our objectives are to obtain reasonable assurance about whether the financial statements and the statement of service performance, as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers, taken on the basis of these financial statements and the statement of service performance.

We did not evaluate the security and controls over the electronic publication of the financial statements and the statement of service performance.

As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. Also:

- We identify and assess the risks of material misstatement of the financial statements and the statement of service performance, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- We evaluate the appropriateness of the reported performance information within the company's framework for reporting its performance.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board of Directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists we are required to draw attention in our auditor's report to the related disclosures in the financial statements and the statement of service performance or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the financial statements and the statement of service performance, including the disclosures, and whether the financial statements and the statement of service performance represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Our responsibilities arise from the Public Audit Act 2001.

Other information

The Board of Directors is responsible for the other information. The other information comprises the information included on pages 3 to 17, but does not include the financial statements and the statement of service performance, and our auditor's report thereon.

Our opinion on the financial statements and the statement of service performance does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the financial statements and the statement of service performance, our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the financial statements and the statement of service performance or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on our work, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Independence

We are independent of the company in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1(Revised): Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board.

Other than the audit, we have no relationship with, or interests in, the company.



Julian Tan
Audit New Zealand
On behalf of the Auditor-General
Dunedin, New Zealand