

CITY FORESTS LIMITED

CITY FORESTS LIMITED

**ANNUAL REPORT
FOR THE YEAR
ENDED
30 JUNE 2015**

CITY FORESTS LIMITED

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CITY FORESTS LIMITED

COMPANY PARTICULARS

As at 30 June 2015

DIRECTORS

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

(Appointed Chairman 1st October 2013)

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

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

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

CHIEF EXECUTIVE OFFICER

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

REGISTERED OFFICE

31 Stafford Street

Dunedin

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

CITY FORESTS LIMITED

DIRECTORS' REPORT **For the Year Ended 30 June 2015**

The Directors of City Forests Limited are pleased to present their report on the activities of the Company for the year ended 30 June 2015.

Principal Activities of the Company

This report covers the financial year 1 July 2014 to 30 June 2015.

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 2015

	\$000
Operating Surplus before Income Tax and Impairment	9,664
Less Impairment	(80)
Less Income Tax	2,702
Net Surplus for the Year	<u>7,042</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 \$5,000,000 in Dividends during the year made up of;

- an interim un-imputed dividend of \$1,400,000 in December 2014,
- a final un-imputed dividend of \$3,100,000 in June 2015,
- a special un-imputed dividend of \$500,000 in June 2015.

Donations

There have been donations made of \$22,796 during the year.

Changes in Accounting Policies

There has been a change in accounting policies for carbon credits.

CITY FORESTS LIMITED

DIRECTORS' REPORT Cont'd/... **For the Year Ended 30 June 2015**

Reserves

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

	\$'000
To Forestry Reserve	1,811
To Retained Earnings	(1,057)
To Hedging Reserve	(2,835)
To Land Revaluation Reserve	(22)
To Carbon Credit Reserve	2,820

Review of Operations

This review of operations and the accompanying financial reports cover the 1 July 2014 to 30 June 2015 financial year.

During the year the Company has operated in a climate of variable but generally favourable operational returns for the New Zealand forest industry. There has been solid economic activity in New Zealand which has led to strong log demand from its domestic sawmill customers. A climate of continued growth in the Asia-Pacific region albeit at a slowing pace maintained solid demand for logs exported to South Korea and China. This environment has delivered a strong financial performance for the Company which recorded a \$7.042 million profit after income tax and impairment charges. Cash flows from operating activities have funded \$5 million paid in shareholder dividends and \$2,076 million of reinvestment in the forest asset through re-planting and silviculture operations.

Export log volumes to the Company's principal South Korean and Chinese customers have been steady during the year. The key profitability drivers of New Zealand Dollar returns are market price, exchange rate and shipping costs. Although, market prices have declined during the year the impact of reduced international shipping costs and the falling value of the New Zealand Dollar have maintained New Zealand Dollar returns from exporting logs at favourable levels. During the year the Company has made arrangements to secure international shipping and export log marketing services through TPT. This arrangement has provided the Company with an opportunity to diversify and optimise export log sales and to reduce shipping costs ultimately maximising returns from the forest estate.

Domestic log sale volumes have been less than previous years due to reduced domestic milling capacity. During the year Pan Pac Forest Products purchased, upgraded and resumed operations at the Milburn Sawmill previously owned by Southern Cross Forest Products Limited (in receivership). Pan Pac has significant expansion plans for this facility and over the medium term it is expected that a significant volume of logs currently being exported from Otago will be processed at this facility. City Forests is a significant supplier to Pan Pac's operations in Otago.

As a result the proportion of the Company's traded volume that is sold to domestic customers reduced to 35.5%. (46% previous year). Domestic supply is expected to increase as more domestic capacity comes online in coming years.

CITY FORESTS LIMITED

DIRECTORS' REPORT Cont'd/... **For the Year Ended 30 June 2015**

The Milburn Processing Plant has operated the full year under lease agreement with Craigpine Timber Limited. The lease has operated smoothly and the Milburn Plant has returned a small operational profit for the year.

During the year the Company re-registered the majority of its post 1989 forests in the New Zealand Emissions Trading Scheme. This completes deregistration and re-registration processes enabling the Company to reduce future harvest liabilities. The Company received no significant allocation of Carbon credits during the period. The Company has changed the accounting policy for carbon credits following the receipt of professional advice.

Change in value of the forest asset has once again been a contributor to the Company's financial performance. The discounted cash flow valuation is influenced by a number of factors including market prices, production costs, forest harvest, forest growth, carbon valuation and discount rate interacting to deliver a gain of \$2.536 million. The production cost benefits from operational performance improvement activities and re-introduction of future carbon cash flows into the valuation following Emission Trading Scheme re-registration was the most significant factors impacting forest valuation change this year.

The Company continues to maintain a foreign exchange hedging portfolio to manage the significant exposure to USD revenues arising from our exporting program to Korea and China. The Company has a well-developed foreign exchange hedging policy that is used to manage the portfolio. With the rapid depreciation of the NZD compared to the USD that has occurred during the period some contracts in the portfolio are fixed at rates higher than current spot rates. This is reflected under Total Comprehensive Income. As the Company only hedges a proportion of its expected USD revenues the Company has benefited from the proportion of its USD revenues converted to NZD at the improved spot rates.

Forest infrastructure, replanting and tending operations have continued to add value to the forest asset. The Company maintains its network of roads to a high standard, replants all harvest areas and continues to prune for clear wood production on high productivity sites. During the year the Company tendered its log cartage work and this resulted in operational savings.

Management is focused on delivering strong returns to its shareholder and has positioned the Company well in terms of production, logistical and international marketing capacity as well as carbon trading ability, to take advantage of the opportunities available to the forest industry.

Health and Safety

The Board 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 further increased during the year.

The Company recorded a Lost Time Injury Frequency (LTIF) of 12.4 lost time injuries per 1 million hours worked (26.5 previous year). One tree felling injury and one slip and trip injury occurred during the year and contributed to this LTIF statistic which encompasses all Company staff and contract forest operations employees. During the year the Company continued to improve its health and safety systems in the areas of log transport, tree felling and breaking out, improved its internal safety audit systems and carried out drug and alcohol training and testing.

CITY FORESTS LIMITED

DIRECTORS' REPORT Cont'd/... **For the Year Ended 30 June 2015**

Developments

During the year the Company was focused on health and safety, operational, supply chain and marketing improvements. These include:

- Work on increasing the productivity of its forest crop.
- Further development of Company health and safety systems.
- Increasing the level of mechanisation and productivity in Company harvesting operations.
- Improvements in log transport through a change of provider reducing costs.
- International shipping cost savings and export log marketing improvements through the Company's relationship with TPT.

Forest Valuation

The value of the Company's forests increased from \$111.1 million at 30 June 2013 to \$113.6 million at 30 June 2014. This net \$2.536 million increase was attributable to a combination of factors, primarily:

- Positive forest growth and maturity in the forest asset, offset by harvesting removals.
- Performance improvement cost savings in harvesting and log transport operations increased future cash flows positively impacting forest valuation.
- The re-introduction of carbon cash flows from both sequestration and emission into the valuation model positively impacted forest valuation.

The discount rate applied remained static at 7%.

Sustainable Forest Management

The Company continues to demonstrate its commitment to responsible and sustainable management of its forest estates. During the year an audit of its management practices to the Forest Stewardship Council Certification Standard was completed successfully.

Change of Directors

No changes in Directors occurred during the period.

CITY FORESTS LIMITED

DIRECTORS' REPORT Cont'd/... **For the Year Ended 30 June 2015**

Outlook

The outlook for the 2016 financial year is to deliver a positive result albeit reduced from 2015 due to the recent price correction in international log markets. A period of market consolidation is expected following recent economic events in Asia.

The Company's financial performance is driven by export and domestic log sales and strong customer relationships. A dividend of \$4.5 million is forecast for the 2016 year.

Looking to the medium term future we are optimistic that City Forests and 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 and other commodities by China and other Asian economies experiencing 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.

This Company's annual harvest is now at long term sustainable levels of approximately 275,000 m3 per annum. The Company is well placed with a mature, harvest ready forest and proven export capability to make the most of market opportunities.

Carbon revenues are expected to once again become a contributor to Company performance in the medium term and carbon prices have recovered from 2013 lows but still have some way to go to incentivise sales. Carbon revenues provide financial recognition of the Company's wider positive environmental impact.

Social and Environmental Contributions

City Forests Limited has continued its Forest Stewardship Council Certification during the year and is making steady progress on improving its knowledge and management of a number of environmental and cultural issues within its forest estate. This includes work in progress identifying rare, threatened or endangered flora and fauna.

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 with numerous recreational activities occurring during the year.

The Company's financial contribution to the community has continued and a number of donations totalling \$22,796 have been made to various organisations, community groups and charities. A significant part of this sum is a contribution to the University of Otago South Island Robin research in Silverpeaks Forest. Non cash donations of firewood have been made to a number of clubs and charities.

CITY FORESTS LIMITED

DIRECTORS' REPORT Cont'd/... **For the Year Ended 30 June 2015**

Financial Statements

The audited financial statements for the year ended 30 June 2015 are attached to this report.

Directors' Interests in Contracts

Refer to Directors' Declarations of Interest section on pages 12 to 13 and the Related Parties Transactions note 33.

Auditors

The Controller and Auditor General have contracted the audit to Audit New Zealand. Auditor's remuneration is set out in Note 5.

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

	130 - 140	150 - 160	170-180	270 - 280
Number of Employees	1	1	1	1

CITY FORESTS LIMITED

DIRECTORS' REPORT Cont'd/... **For the Year Ended 30 June 2015**

Information on the Directors of City Forests Limited

Director	Responsibilities	Remuneration \$000	
		2015	2014
John F Gallaher	Non-Executive Director (Appointed 1 st November 2012) Chairman Remunerations Sub Committee (Appointed 1 st October 2013)	52	45
Tony D Allison	Non-Executive Director (Appointed 1 st November 2012) Chairman Audit Committee (Appointed 1 st October 2013)	27	27
Tim J Mephram	Non-Executive Director (Appointed 1 st December 2013)	27	16
Michael C Horne	Non-Executive Director (Appointed 9 th December 2013)	27	16

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.

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.

CITY FORESTS LIMITED

DIRECTORS' REPORT Cont'd/... **For the Year Ended 30 June 2015**

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

T D Allison
Director

Date

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

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

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, Otago Southland Employers Association
Member, Dunedin International Airport Limited

Date appointed 1st November 2012

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 December 2013

CITY FORESTS LIMITED

Director & Qualifications

Declarations of Interest

Mr Michael C Horne (Non-Executive Director)

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

Director, Best View Limited
Director, Ellis Fibre NZ Limited
Director, Escea International Limited
Director, Escea Limited
Director, McMahon Investments Limited
Director, Hunterfields Investments Limited
Director, Prospectus Nominees
Director, Palmers Mechanical Limited
Director, Prospectus Nominees Services Limited
Director, Ellis Fibre Global Limited
Director, Deloitte Limited
Director, Palmer MH Limited
Director, Viblock Limited
Director, Otago Southland Division of the Cancer Society of
New Zealand
Director, Rawhiti Road Investments Limited
Director, Otago Polytechnic
Director, Palmer & Son Limited
Director, PDS (Computer Services) Limited
Trustee, Digital Community Trust
Director, Palmer Resources Limited
Director, Foodco New Zealand Limited
Trustee, Otago Festival of Arts Trust

Date appointed December 2013

CITY FORESTS LIMITED

TREND STATEMENT

	Year Ended 30 Jun 15 \$'000	Year Ended 30 Jun 14 \$'000	Year Ended 30 Jun 13 \$'000	Year Ended 30 Jun 12 \$'000	Year Ended 30 Jun 11 \$'000
<u>FINANCIAL PERFORMANCE</u>					
Domestic Revenue	9,412	12,687	13,590	8,652	6,503
Export Revenue	26,751	22,108	18,983	30,869	35,451
Other Revenue	2,228	2,385	2,652	2,703	3,912
Total Revenue	38,391	37,180	35,225	42,224	45,866
Percentage Increase	3.2%	5.5%	(16.6%)	(7.9%)	10.6%
Inventory Movement	(170)	(308)	(479)	(820)	695
Total Expenses	31,072	28,216	29,514	41,705	42,867
Percentage Increase	(10.1%)	(4.4%)	(29.2%)	(2.7%)	3.1%
Operating Surplus	7,149	8,656	5,232	(301)	3,694
New Zealand Carbon Credits	-	2,694	6,172	2,316	6,850
Gain in fair value of forestry asset	2,515	1,571	7,046	3,503	738
Impairment Charges	(80)	1,500	-	3,000	-
Surplus After Non-Operating Items And Before Taxation	9,744	11,421	18,450	2,518	11,282
Income Tax	2,702	3,130	3,836	641	1,748
Total Surplus after Taxation	7,042	8,291	14,614	1,877	9,534
<u>SHAREHOLDERS' FUNDS</u>					
Shareholders Funds	96,649	95,932	91,725	81,938	83,838
Operating Cash flow	8,734	8,278	17,263	5,130	13,266
Dividends Paid - Normal	4,500	2,600	2,400	2,200	2,000
- Special	500	2,500	2,000	-	-
Value of Forest	113,629	111,093	108,589	103,528	100,335
Surplus after tax to shareholders funds	7.29%	8.64%	15.93%	2.29%	11.93%
Proprietorship Ratio	62.53%	63.34%	61.89%	56.10%	56.69%
Net Forest Revaluation	1,811	1,131	5,073	2,522	531
Net Land Revaluation	(22)	(102)	-	(505)	(10)
<u>FOREST STATISTICS</u> (whole no's)					
Forest harvested (m ³)	299,377	284,373	302,096	266,281	263,530
Volume traded (m ³)	18,530	2,583	1,917	27,151	20,564
Forest planted (ha)	605	602	520	732	811
Total forest (ha)	16,315	16,326	16,114	16,129	16,011
Forest purchased (ha)	-	204	-	-	-

CITY FORESTS LTD

Statement of Comprehensive Income For the Year Ended 30 June 2015

		Year to 30 June 2015 \$'000	Year to 30 June 2014 \$'000
	Note		
Revenue	3	36,520	37,657
Financial income	4	1,489	1,737
Gain/(loss) in fair value of forestry asset	28	2,515	1,571
Total revenue		40,524	40,965
Inventory movement		(71)	(193)
<i>Less expenses</i>			
Contractors		14,322	12,035
Depreciation and amortisation expense		323	325
Directors fees		134	125
Employee expenses		1,191	1,193
Financial expenses	6	1,142	1,345
Other expenses	5	13,871	12,953
Total expenses		30,983	27,976
Profit before tax		9,470	12,796
Income tax expense	9&32	2,625	3,515
Net Profit for the Year from continued operations		6,845	9,281
Discontinued operations	32	197	(990)
NET PROFIT/(LOSS) AFTER TAX		7,042	8,291

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

CITY FORESTS LTD

Statement of Comprehensive Income Cont'd/... For the Year Ended 30 June 2015

	Year to 30 June 2015 Note	Year to 30 June 2014 \$'000
Other comprehensive income		
Gains/(loss) on foreign exchange hedges taken to equity	(3,938)	1,551
Tax effect of foreign exchange hedges taken to equity	1,103	(434)
Increase/(decrease) in land revaluation	(22)	(101)
Carbon credits revaluation above initial recognition taken to equity	1,917	-
Tax effect of carbon taken to equity	(385)	-
	<hr/>	<hr/>
Other comprehensive income for the year	(1,325)	1,016
	<hr/>	<hr/>
Total Comprehensive Income for the Year	5,717	9,307
	<hr/>	<hr/>

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 2015

		Year to 30 June 2015 \$'000	Year to 30 June 2014 \$'000
	Note		
Equity at beginning of year		95,932	91,725
Total comprehensive income for the year		5,717	9,307
Distribution to owners			
Dividends	8	(5,000)	(5,100)
Equity at end of year		96,649	95,932

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

CITY FORESTS LTD

Balance Sheet

As at 30 June 2015

	Note	As at 30 June 2015 \$'000	As at 30 June 2014 \$'000
Equity			
Share Capital	10	25,691	25,691
Forestry reserve	11	48,942	47,131
Land revaluation reserve	11	14,847	14,869
Hedging reserve	11	(2,373)	462
Carbon credit reserve	11	2,820	-
Retained earnings	12	6,722	7,779
Total Equity		96,649	95,932
Current Liabilities			
Trade and other payables	13	2,832	2,364
Other current liabilities	15	278	290
Employee Provisions	16	125	110
Derivative financial instruments	14	2,064	783
Current portion of term borrowings	17	1,686	1,686
Provision for taxation		1,146	454
Total current liabilities		8,131	5,687
Non-Current Liabilities			
Derivative financial instruments	14	1,232	-
Term borrowings	17	19,518	21,115
Other liabilities	15	320	320
Deferred tax liability	18	28,716	28,403
Total non-current liabilities		49,786	49,838
Total Liabilities		57,917	55,525
TOTAL EQUITY PLUS LIABILITIES		154,566	151,457

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

CITY FORESTS LTD

Balance Sheet Cont'd/.... As at 30 June 2015

		As at 30 June 2015 \$'000	As at 30 June 2014 \$'000
Current Assets	Note		
Cash and cash equivalents	22	474	203
Trade and other receivables	23	3,995	3,488
Derivative financial instruments	14	-	888
Inventories	25	417	587
Prepayments		181	402
Other current assets	24	262	158
Intangibles - New Zealand carbon credits	30	4,994	3,079
Total current assets		10,323	8,805
Non-Current Assets			
Derivative financial instruments	14	-	531
Property, plant and equipment	29	30,566	30,943
Forestry assets	28	113,629	111,093
Investments	26	1	1
Intangibles – computer software	27	47	84
Total non-current assets		144,243	142,652
TOTAL ASSETS		154,566	151,457

For and on behalf of the Board of Directors

J F Gallaher
Chairman

T D Allison
Director

Date

Date

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 2015

	Year to 30 June 2015 \$'000	Year to 30 June 2014 \$'000
Note		
Cash Flows from Operating Activities		
<i>Cash was provided from</i>		
Receipts from customers	36,162	33,393
Interest received	14	60
Effect of exchange rate changes	1,475	1,679
	37,651	35,132
<i>Cash was disbursed to</i>		
Payments to suppliers and employees	27,072	23,488
Interest paid	867	915
Income Tax	978	1,850
Subvention payments	-	601
	28,917	26,854
Net Cash Inflows/(Outflows) from Operating Activities	31 8,734	8,278
Cash Flows from Investing Activities		
<i>Cash was provided from</i>		
Proceeds from investments	-	100
Sale of property, plant and equipment	719	16
	719	116
<i>Cash was disbursed to</i>		
Purchase of property, plant and equipment	368	682
Purchase of Forest Assets – Cost of bush	1,708	2,835
	2,076	3,517
Net Cash Inflows/(Outflows) from Investing Activities	(1,357)	(3,401)

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 2015

	Year to 30 June 2015 \$'000	Year to 30 June 2014 \$'000
Cash Flows from Financing Activities		
<i>Cash was provided from</i>		
Proceeds from borrowings	6,960	11,028
	<u>6,960</u>	<u>11,028</u>
<i>Cash was disbursed to</i>		
Repayment of borrowings	9,066	13,864
Dividends paid	5,000	5,100
	<u>14,066</u>	<u>18,964</u>
Net Cash Inflows / (Outflows) from Financing Activities	<u>(7,106)</u>	<u>(7,936)</u>
Net Increase / (Decrease) in Cash Held	271	(3,059)
Cash and short term deposits at the beginning of the year	<u>203</u>	<u>3,262</u>
CASH AND SHORT TERM DEPOSITS AT THE END OF THE YEAR	<u><u>474</u></u>	<u><u>203</u></u>
Composition of Cash		
Cash and short term deposits	<u><u>474</u></u>	<u><u>203</u></u>

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

CITY FORESTS LIMITED

Notes to the Financial Statements For the Year Ended 30 June 2015

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 by Dunedin City Holdings Limited. Dunedin City Holdings Limited is wholly owned by Dunedin City Council.

The registered address of the company is 31 Stafford 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, the Companies Act 1993 and the Financial Reporting Act 2013.

These financial statements are presented in New Zealand dollars because that is the currency of the primary economic environment in which the company operates.

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 25th August 2015.

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.

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

Associate Entities

The company has used deemed cost less writedown for the value of the shares held in Otago Chipmill Limited.

CITY FORESTS LIMITED

Notes to the Financial Statements Cont'd/.... For the Year Ended 30 June 2015

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

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.

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.

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.

CITY FORESTS LIMITED

Notes to the Financial Statements Cont'd/.... For the Year Ended 30 June 2015

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.

Foreign 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 in the year in which they are incurred, with the exception of the Ministry of Forestry loans.

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 2015

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.

The company recognises a liability for sick leave to the extent that absences in the coming year are expected to be greater than the sick leave entitlements earned in the coming year. The calculation is based on the value of excess sick leave taken within the previous twelve months.

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.

Taxation

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 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.

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.

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, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

CITY FORESTS LIMITED

Notes to the Financial Statements Cont'd/.... For the Year Ended 30 June 2015

Property, Plant and Equipment

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 Quotable Value.

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.

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 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

CITY FORESTS LIMITED

Notes to the Financial Statements Cont'd/.... For the Year Ended 30 June 2015

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 in the year the item is derecognised.

Forests

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.

Research and Development Expenditure

Expenditure on research activities is recognised as an expense in the year in which it is incurred.

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.

Notes to the Financial Statements Cont'd/.... For the Year Ended 30 June 2015

Impairment of assets excluding goodwill Cont'd/....

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.
- Wood processing inventories
Products which as a result of processing are valued at lower of cost or net realisable value.
- 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.

Trade and other receivables

Trade and other receivables are subsequently measured at amortised cost using the effective interest method. Gains and losses when the asset is impaired are derecognised or recognised in the statement of comprehensive income.

Investments

Investments are recognised and derecognised on a trade date where a purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at cost, including transaction costs.

Investments in debt and equity securities

Investments in debt and equity securities are financial instruments classified as available for sale and are measured at fair value at balance date. Any resultant gains or losses are recognised in the statement of comprehensive income for the year.

CITY FORESTS LIMITED

Notes to the Financial Statements Cont'd/.... For the Year Ended 30 June 2015

Trade and other payables

Trade and other payables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method.

Trade and other receivables

Trade and other receivables are initially measured at fair value and subsequently measured at amortised cost less any allowances for estimated irrecoverable amounts.

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 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.

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.

Derivative financial instruments and hedge accounting

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.

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.

CITY FORESTS LIMITED

Notes to the Financial Statements Cont'd/.... For the Year Ended 30 June 2015

Derivative financial instruments and hedge accounting Cont'd/....

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. 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 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. 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.

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 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 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.

Carbon credits

Emissions units 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
- Emissions Liability is recorded at the market value of emissions units at the end of the 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 LIMITED

Notes to the Financial Statements Cont'd/.... For the Year Ended 30 June 2015

Standards and Interpretations effective in the current period

Those with disclosure impact:

The impact of the adoption of the following Standards and Amendments has been to expand the disclosures provided in these financial statements:

The following are the new or revised Standards or Interpretations in issue that are not yet required to be adopted by entities preparing financial statements for periods ending on 30th June 2015.

New Pronouncement	Effective Date
New or revised Standards or Interpretations	
NZ IFRS 9 <i>Financial Instruments (2014)</i>	1 January, 2017
NZ IFRS 15 <i>Revenue from Contracts with Customers</i>	1 January, 2017

Those with no impact:

Other standards adopted during the year have not led to any changes in the company's accounting policies with measurement or recognition having impact on the periods as presented in these financial statements.

Provisions

A provision is recognised in the balance sheet when the company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation.

Intangible Assets

Intangible assets acquired separately are reported at cost less accumulated amortisation. Amortisation is charged on a diminishing value basis over their estimated useful lives.

CITY FORESTS LIMITED

Notes to the Financial Statements Cont'd/.... For the Year Ended 30 June 2015

Statement of Cashflows

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

Changes in accounting policies

There have been no changes in accounting policies.

	As at 30 June 2015 \$'000	As at 30 June 2014 \$'000
3. OPERATING REVENUE		
Sales revenue	36,250	34,802
New Zealand carbon credits	-	2,694
Gain on sale of property, plant and equipment	20	12
Other revenue	250	149
	36,520	37,657
4. FINANCIAL INCOME		
Interest on other investments	14	58
Effect of exchange rate gains	1,475	1,679
	1,489	1,737
No interest is earned on impaired or restricted assets		
5. OTHER EXPENSES		
Audit fees - for audit of financial statements	34	33
Donations	23	11
Loss on sale of property, plant and equipment	-	1
Rental expense on operating leases	72	72
Research expenditure	134	117
Cost of bush applied	2,197	2,486
Shipping costs	6,241	6,183
Other expenses	5,170	4,050
	13,871	12,953

CITY FORESTS LIMITED

Notes to the Financial Statements Cont'd/.... For the Year Ended 30 June 2015

	As at 30 June 2015 \$'000	As at 30 June 2014 \$'000
6. FINANCIAL EXPENSES		
Movement in commodities	47	7
Interest - related parties	879	911
Facility fees – related parties	215	219
Write down in investment value	-	208
Total financial expenses	<u>1,141</u>	<u>1,345</u>
7. EARNINGS PER SHARE		
Basic earnings per share is calculated by dividing the net surplus/(deficit) attributable to the shareholder of the company by the weighted average number of ordinary shares on issue during the year	27.41c	32.28c
Number of shares		
Weighted average number of ordinary shares	25,690,522	25,690,522

CITY FORESTS LIMITED

Notes to the Financial Statements Cont'd/.... For the Year Ended 30 June 2015

8. DIVIDENDS

	As at 30 June 2015 \$'000	As at 30 June 2014 \$'000
The following dividends were paid by the company:		
Interim dividend - \$0.0506 per share	1,400	1,300
Final dividend - \$0.0506 per share	3,100	1,300
Special dividend – \$0.0973 per share	500	2,500
	<u>5,000</u>	<u>5,100</u>

9. INCOME TAX

Net profit/(loss) from continued operations	9,471	12,796
Net profit/(loss) from discontinued operations	274	(1,375)
Profit before income tax	<u>9,745</u>	<u>11,421</u>
Tax thereon at 28%	2,729	3,198
<i>Plus/(less) the Tax Effect of Differences</i>		
Income not assessable for taxation	(33)	(137)
Expenditure not deductible for taxation	2	74
Under / (over) tax provision in prior years	4	(5)
Tax effect of differences	<u>(27)</u>	<u>(68)</u>
Tax expense	<u>2,702</u>	<u>3,130</u>
Tax expense made up as follows:		
Continued operations	2,625	3,515
Discontinued operations	77	(385)
	<u>2,702</u>	<u>3,130</u>
Effective tax rate	27.7%	27.4%
<i>Represented by</i>		
Current tax provision	1,667	2,303
Deferred tax provision	1,031	832
Under / (over) tax provision in prior years	4	(5)
	<u>2,702</u>	<u>3,130</u>

Imputation credit account

City Forests Limited is a member of an income tax consolidated group and has access to the income tax consolidated group's imputation credit account.

CITY FORESTS LIMITED

Notes to the Financial Statements Cont'd/.... For the Year Ended 30 June 2015

9. INCOME TAX Cont'd/....

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.

	As at 30 June 2015 \$'000	As at 30 June 2014 \$'000
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10. EQUITY - Share Capital

Issued Capital

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.

25,691	25,691
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11. 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	47,131	46,000
Transfer from retained earnings	1,811	1,131
Balance at the end of the year	48,942	47,131

Hedging Reserve

Balance at beginning of the year	462	(655)
Gain/(loss) in fair value movement in derivatives	(2,835)	1,117
Balance at the end of the year	(2,373)	462

Land Revaluation Reserve

Balance at beginning of the year	14,869	14,970
Forestry land revaluations	(22)	(101)
Balance at the end of the year	14,847	14,869

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.

CITY FORESTS LIMITED

Notes to the Financial Statements Cont'd/.... For the Year Ended 30 June 2015

11. RESERVES Cont'd/....

	As at 30 June 2015 \$'000	As at 30 June 2014 \$'000
<u>Carbon Credit Reserve</u>		
Balance at beginning of the year	-	-
Transfer from retained earning	1,288	-
Gain in carbon credits above initial recognition value	1,532	-
Balance at the end of the year	<u>2,820</u>	<u>-</u>

The movement of \$1,288 is a result of the revaluation of carbon credits. This transfer from retained earnings is for the portion of the revaluation above the initial recognition value of the credits compared to the current market value. The amount held in the reserve is net of deferred tax where relevant. Any value above initial recognition is now held in the Carbon Credit revaluation reserve.

12. RETAINED EARNINGS

Balance at the beginning of the year	7,779	5,719
Net profit/(loss) for the year	7,042	8,291
Dividend distributions	(5,000)	(5,100)
Transfer to forestry reserve	(1,811)	(1,131)
Transfer to carbon credit reserve	(1,288)	-
Balance at the end of the year	<u>6,722</u>	<u>7,779</u>

13. TRADE AND OTHER PAYABLES

Trade payables	2,832	2,364
	<u>2,832</u>	<u>2,364</u>

The amounts due to customers under construction contracts at 30 June 2015 were \$nil (2014: \$nil).

The Directors consider that the carrying amount of trade payables approximates their fair value.

CITY FORESTS LIMITED

Notes to the Financial Statements Cont'd/.... For the Year Ended 30 June 2015

14. FINANCIAL INSTRUMENTS

	As at 30 June 2015 \$'000	As at 30 June 2014 \$'000
<u>Financial Assets</u>		
Trade and other receivables	3,995	3,488
Derivative financial instruments	-	1,418
	<u>3,995</u>	<u>4,906</u>
<i>Analysed as:</i>		
Current	3,995	4,376
Non-Current	-	530
	<u>3,995</u>	<u>4,906</u>
<u>Financial Liabilities</u>		
Trade and other payables	2,832	2,364
Derivative financial instruments	3,296	783
Borrowings	21,204	22,800
	<u>27,332</u>	<u>25,947</u>
<i>Analysed as:</i>		
Current	6,582	4,833
Non-Current	20,750	21,114
	<u>27,332</u>	<u>25,947</u>

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.

CITY FORESTS LIMITED

Notes to the Financial Statements Cont'd/.... For the Year Ended 30 June 2015

14. FINANCIAL INSTRUMENTS Cont'd/....

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 2015	Foreign currency 2015 FC'000	Contract value 2015 NZD'000	Fair value 2015 NZD'000	Fair value 2014 NZD'000
Cashflow hedges					
Sell USD					
Current	0.750	7,200	9,607	(1,113)	816
Non current	0.727	8,200	11,282	(1,232)	530
				(2,345)	1,346

<u>2015</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	3,995	-	-	-	-	-	3,995
Derivative financial instruments	-	-	-	-	-	-	-
	3,995	-	-	-	-	-	3,995
<u>Financial Liabilities</u>							
Trade and other payables	2,832	-	-	-	-	-	2,832
Derivative financial instruments	2,064	889	343	-	-	-	3,296
Borrowings	1,686	1,686	1,686	1,686	1,030	13,430	21,204
	6,582	2,575	2,029	1,686	1,030	13,430	27,332

<u>2014</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	3,488	-	-	-	-	-	3,488
Derivative financial instruments	888	354	176	-	-	-	1,418
	4,376	354	176	-	-	-	4,906
<u>Financial Liabilities</u>							
Trade and other payables	2,364	-	-	-	-	-	2,364
Derivative financial instruments	783	-	-	-	-	-	783
Borrowings	1,686	1,686	1,686	1,686	1,686	14,370	22,800
	4,833	1,686	1,686	1,686	1,686	14,370	25,947

CITY FORESTS LIMITED

Notes to the Financial Statements Cont'd/.... For the Year Ended 30 June 2015

14. FINANCIAL INSTRUMENTS Cont'd/....

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.

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

	As at 30 June 2015 \$'000	As at 30 June 2014 \$'000
Maturing in less than one year		-
Maturing between one and five years	10,000	10,000
Maturing after five years	3,000	3,000
	<u>13,000</u>	<u>13,000</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.

CITY FORESTS LIMITED

Notes to the Financial Statements Cont'd/.... For the Year Ended 30 June 2015

14. FINANCIAL INSTRUMENTS Cont'd/....

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 .7026 and against the AUD from the year end rate of .9074.
- A parallel shift of +1% / -1% in the NZD market interest rate from the year end 90 day BBRR of 3.08%.

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%
	Profit	Equity Profit	Equity Profit	Equity Profit	Equity Profit
<u>Financial Assets</u>					
<u>Derivatives</u>					
Currency Hedges – Sell USD	20,883	-	-	-	(1,993)
Other Financial Assets	3,995	-	-	-	(279)
<u>Financial Liabilities</u>					
Interest rate swaps	13,000	(449)	426	-	-
Total increase/(decrease)		(449)	426	2,777	(2,272)

1. Cash and cash equivalents include deposits at call which are floating interest rates. Sensitivity to a 1% movement in rates is \$nil.
2. Accounts receivable within City Forests Limited include \$2.160 million of USD denominated receivables at year end.
3. 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.
4. 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.
5. 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 2015

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).		

	2015		
	Level 1	Level 2	Level 3
	NZ \$'000	NZ \$'000	NZ \$'000
Total	NZ \$'000		
Financial assets			
Derivative financial assets	-	-	-
New Zealand carbon credits	4,994	-	-
	4,994	-	-
Financial liabilities			
Derivative financial liabilities	-	-	-
	-	3,296	-
	-	3,296	-

	2014		
	Level 1	Level 2	Level 3
	NZ \$'000	NZ \$'000	NZ \$'000
Total	NZ \$'000		
Financial assets			
Derivative financial assets	-	1,418	-
New Zealand carbon credits	3,079	-	-
	3,079	1,418	-
Financial liabilities			
Derivative financial liabilities	-	-	-
	-	784	-
	-	784	-

CITY FORESTS LIMITED

Notes to the Financial Statements Cont'd/.... For the Year Ended 30 June 2015

15. OTHER LIABILITIES

	As at 30 June 2015 \$'000	As at 30 June 2014 \$'000
(i) <u>Current Liabilities</u>		
Other current liabilities	278	290
	<u>278</u>	<u>290</u>
(ii) <u>Non-Current Liabilities</u>		
Other non-current liabilities – Ferny Hill land liability	320	320
	<u>320</u>	<u>320</u>

16. EMPLOYEE PROVISIONS

<u>Current liabilities</u>		
Long service leave	38	34
Annual leave and days in lieu	87	76
	<u>125</u>	<u>110</u>
<u>Long service leave</u>		
Opening balance	34	28
Increase/(decrease) in provision	4	6
Closing balance	<u>38</u>	<u>34</u>
<u>Annual leave and days in-lieu</u>		
Opening balance	76	92
Increase/(decrease) in provision	11	(16)
Closing balance	<u>87</u>	<u>76</u>

17. TERM BORROWINGS (secured)

Dunedin City Treasury loan facility	13,430	13,850
Forestry loans	7,774	8,951
	<u>21,204</u>	<u>22,801</u>

The term borrowings are secured against certain assets and undertakings of City Forests Limited.

The forestry loans are from the Ministry of Primary Industries. They are fixed rate loans secured by registered first mortgage 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 2015 was \$510 (2014 \$586).

CITY FORESTS LIMITED

Notes to the Financial Statements Cont'd/.... For the Year Ended 30 June 2015

17. TERM BORROWINGS (secured) Cont'd/...

The repayment period on the term borrowings is as follows:

	As at 30 June 2015 \$'000	As at 30 June 2014 \$'000
Less than one year	1,686	1,686
Repayable between one to two years	1,686	1,686
Repayable between two to three years	1,686	1,686
Repayable between three to four years	1,686	1,686
Repayable between four to five years	1,030	1,686
Repayable later than five years	13,430	14,370
	<u>21,204</u>	<u>22,800</u>

The weighted average interest rate for the Dunedin City Treasury Limited loan facility, ranged between 4.75 and 7.53% (2014 4.75 – 7.53%).

The weighted average interest rates for the forestry loans is 6.09%, (2014 6.09%).

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

Multi-option note facility	13,430	13,850
Forestry loans	7,514	8,583

CITY FORESTS LIMITED

Notes to the Financial Statements Cont'd/.... For the Year Ended 30 June 2015

18. DEFERRED TAX LIABILITIES AND ASSETS

	2015 \$'000	2015 \$'000	2015 \$'000	2015 \$'000	2015 \$'000	2015 \$'000
	Opening Balance Sheet	Charged To Equity	Charged to Income	Closing Balance Sheet Assets	Liabilities	Net
Property, plant and equipment	(113)	-	36	(77)	-	(77)
Employee provisions	(48)	-	(9)	(57)	-	(57)
Forest	18,329	-	704	-	19,033	19,033
Capitalised forestry costs	9,433	-	297	-	9,730	9,730
Revaluations of foreign exchange contracts	377	(1,033)	-	(656)	-	(656)
Revaluations of interest rate swaps	(198)	(68)	-	(266)	-	(266)
Revaluation of carbon credits	617	383	-	-	1,000	1,000
Other	6	-	3	-	9	9
Balance at the end of the year	28,403	(718)	1,031	(1,056)	29,772	28,716

	2014 \$'000	2014 \$'000	2014 \$'000	2014 \$'000	2014 \$'000	2014 \$'000
Property, plant and equipment	289	-	(402)	(113)	-	(113)
Employee provisions	(51)	-	3	(48)	-	(48)
Forest	17,889	-	440	-	18,329	18,329
Capitalised forestry costs	9,267	-	166	-	9,433	9,433
Revaluations of foreign exchange contracts	78	299	-	-	377	377
Revaluations of interest rate swaps	(333)	135	-	(198)	-	(198)
Other	(4)	-	627	-	623	623
Balance at the end of the year	27,135	434	834	(359)	28,762	28,403

CITY FORESTS LIMITED

Notes to the Financial Statements Cont'd/.... For the Year Ended 30 June 2015

19. CAPITAL EXPENDITURE COMMITMENTS

As at 30 June 2015 \$'000	As at 30 June 2014 \$'000
------------------------------------	------------------------------------

There are no capital commitments as at 30 June 2015 (2014 \$nil)

-	-
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20. CONTINGENT LIABILITIES

There are no contingent liabilities as at 30 June 2015 (2014 \$nil)

21. LEASE COMMITMENTS

(i) Minimum operating lease commitments

Payable within one year	80	44
Payable between one to five years	108	9
Payable later than five years	-	1
	188	54

(ii) Minimum finance lease payments

Payable within one year	-	-
Payable between one to five years	-	-
Payable later than five years	-	-
	-	-

Building lease term is for 6 years commencing December 2005 with four 3 year rights of renewal.

22. CASH AND CASH EQUIVALENTS

Cash and cash equivalents	474	203
Short term deposits	-	-
	474	203

Cash and short-term deposits comprise cash held by the company and short-term bank deposits with an original maturity of three months or less.

23. TRADE AND OTHER RECEIVABLES

Trade receivables	3,994	3,488
Due from related Parties - Otago Chipmill Limited	1	-
	3,995	3,488

The Directors consider that the carrying amount of the trade and other receivables approximates their fair value.

CITY FORESTS LIMITED

Notes to the Financial Statements Cont'd/.... For the Year Ended 30 June 2015

24. OTHER CURRENT ASSETS

	As at 30 June 2015 \$'000	As at 30 June 2014 \$'000
Goods and services tax	262	158
	<u>262</u>	<u>158</u>

25. INVENTORIES

Raw materials and stores	379	450
Finished goods	38	137
	<u>417</u>	<u>587</u>

26. INVESTMENTS

Non-Current Investments

Shares and units in other companies and funds	1	1
Shares and advance in Otago Chipmill Ltd	-	-
	<u>1</u>	<u>1</u>
Otago Chipmill Balance Sheet		
Total assets	54	71
Total liabilities	-	6
Net assets	<u>54</u>	<u>65</u>

No contingent liabilities have arisen with the investment in the Otago Chipmill Limited
Full revenue/surplus/deficit of associate – 49.9% of this reflects City Forests share.

Revenue	4	5
Profit before income tax	(11)	(97)
Income tax	-	(10)
Profit after income tax	<u>(11)</u>	<u>(107)</u>

The Directors resolved to write down the value of the Otago Chipmill Limited investment to \$nil.

27. INTANGIBLE ASSETS

Computer software

Balance at the beginning of the year	84	50
Plus purchases	7	77
Less amortisation expenses	(44)	(43)
	<u>47</u>	<u>84</u>

The amortisation expense has been included in the line 'depreciation and amortisation expense' in the statement of comprehensive income.

The following useful lives are used in the calculation of amortisation
Software - 2-3 yrs

CITY FORESTS LIMITED

Notes to the Financial Statements Cont'd/.... For the Year Ended 30 June 2015

28. FORESTRY ASSETS

	As at 30 June 2015 \$'000	As at 30 June 2014 \$'000
Balance at the beginning of the year	111,093	108,589
Add Costs capitalised in establishing forests during the year	2,218	2,111
Increase in forest from acquisition	-	1,309
Forest revaluation	2,515	1,571
Less Cost of trees harvested	(2,197)	(2,487)
	<u>113,629</u>	<u>111,093</u>
Gains/(losses) arising from changes in fair value less point of sale costs;		
attributable to physical changes	3,194	6,510
attributable to price changes	(658)	(4,006)
	<u>2,536</u>	<u>2,504</u>

The directors of City Forests Limited revalue its forestry assets annually.

The valuation methodology used establishes the fair value of the collective forest and land resource and then subtracts the value of the forestry land at \$25,573,800 value (see note 29). 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 7.0%.

At 30 June 2015 the company owned stands of trees on 16,315 hectares of a total land holding of 20,191 hectares. During the year the company harvested approx. 299,377 m³ of logs from its forests.

City Forests Limited is exposed to financial risks associated with USD log price and the USD and AUD sawn timber prices. This risk is managed through its financial management policy described within note 14, 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.

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 Chandler Fraser Keating. The peer review was completed with regard to a summary of market transactions at arms length terms and current market conditions. The valuation assumptions include all direct costs and revenues.

CITY FORESTS LIMITED

Notes to the Financial Statements Cont'd/.... For the Year Ended 30 June 2015

29. PROPERTY, PLANT AND EQUIPMENT

	Land Other Valuation	Forest Land Valuation	Building Cost	Roads Bridges Cost	Plant Equipment Cost	Sub-Total
2015	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Cost or Valuation						
Balance at beginning of year	982	25,574	1,913	6,378	7,366	42,213
Increase through acquisition	-	-	-	-	-	-
Purchases/revaluation	(22)	-	-	334	74	386
Disposals	(640)	-	-	-	-	(640)
Transfer to property intended for sale	-	-	-	-	-	-
Reclassified as intangibles	-	-	-	-	-	-
Balance at end of year	320	25,574	1,913	6,712	7,440	41,959
Accumulated depreciation/impairment						
Balance at beginning of year	110	-	1,491	3,583	6,324	11,508
Depreciation	-	-	17	147	90	254
Impairment	(80)	-	-	-	-	(80)
Disposals	-	-	-	-	-	-
Transfer to property intended for sale	-	-	-	-	-	-
	30	-	1,508	3,730	6,414	11,682
Balance at end of year	290	25,574	405	2,982	1,026	30,277
Comprising - Cost	-	-	405	2,982	1,026	4,413
Valuation	290	25,574	-	-	-	25,864

The land valuations were obtained from Quotable Valuation which is the valuation company used by the relevant city and district councils. The revaluation movement in the land for the year ended 30 June 2014 was nil (2013 \$nil). All other asset classes are shown at cost.

CITY FORESTS LIMITED

Notes to the Financial Statements Cont'd/.... For the Year Ended 30 June 2015

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

		Motor Vehicles	Office Equipment	
	Sub-Total	Cost	Cost	Total
2015 Cont'd/....	\$'000	\$'000	\$'000	\$'000
Cost or Valuation				
Balance at beginning of year	42,213	825	282	43,320
Increase through acquisition	-	-	-	-
Purchases/ revaluation	386	142	20	548
Disposals	(640)	(129)	-	(769)
Transfer to property held for sale	-	-	-	-
Reclassified as intangibles	-	-	-	-
Balance at end of year	41,959	838	302	43,099
Accumulated depreciation				
Balance at beginning of year	11,508	626	243	12,377
Reclassified as intangibles	-	-	-	-
Depreciation	254	69	19	342
Impairment	(80)	-	-	(80)
Disposals	-	(106)	-	(106)
Transfer to property held for sale	-	-	-	-
	11,682	589	262	12,533
Balance at end of year	30,277	249	40	30,566
Comprising – Cost	4,413	249	40	4,702
Valuation	25,864	-	-	25,864

CITY FORESTS LIMITED

Notes to the Financial Statements Cont'd/.... For the Year Ended 30 June 2015

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

	Land Other Valuation	Forest Land Valuation	Buildings Cost	Roads Bridges Cost	Plant Equipment Cost	Sub-Total
2014	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Cost or Valuation						
Balance at beginning of year	994	25,114	1,913	6,378	7,342	41,741
Increase through acquisition	-	-	-	-	-	-
Purchases/revaluation	(12)	460	-	-	26	474
Disposals	-	-	-	-	(2)	(2)
Transfer to property intended for sale	-	-	-	-	-	-
Reclassified as intangibles	-	-	-	-	-	-
Balance at end of year	982	25,574	1,913	6,378	7,366	42,213
Accumulated depreciation						
Balance at beginning of year	110	-	1,062	3,430	5,083	9,685
Depreciation	-	-	27	153	167	347
Impairment	-	-	402	-	1,076	1,478
Disposals	-	-	-	-	(2)	(2)
Transfer to property intended for sale	-	-	-	-	-	-
	110	-	1,491	3,583	6,324	11,508
Balance at end of year	872	25,574	422	2,795	1,042	30,705
Comprising - Cost	-	-	422	2,795	1,042	4,259
Valuation	872	25,574	-	-	-	26,446

CITY FORESTS LIMITED

Notes to the Financial Statements Cont'd/.... For the Year Ended 30 June 2015

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

		Motor Vehicles	Office Equipment	
	Sub-Total	Cost	Cost	Total
2014 Cont'd/....	\$'000	\$'000	\$'000	\$'000
Cost or Valuation				
Balance at beginning of year	41,741	817	299	42,857
Increase through acquisition	-	-	-	-
Purchases/ revaluation	474	43	29	546
Disposals	(2)	(35)	(46)	(83)
Transfer to property held for sale	-	-	-	-
Reclassified as intangibles	-	-	-	-
Balance at end of year	42,213	825	282	43,319
Accumulated depreciation				
Balance at beginning of year	9,685	563	270	10,518
Depreciation	347	73	18	438
Impairment	1,478	21	1	1,500
Disposals	(2)	(31)	(46)	(79)
Transfer to property held for sale	-	-	-	-
	11,508	626	243	12,377
Balance at end of year	30,705	199	39	30,943
Comprising - Cost	4,259	199	39	4,497
Valuation	26,446	-	-	26,446

30. 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 or converted into Assigned Amount Units (AAU's) and sold internationally. 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 Limited a total of 1,418,115 Post-89 derived NZU's, being the carbon sequestered by these forests during the 2008 to 2015 calendar years. In 2015 3,086 ERU's were purchased, 2,999 were surrendered later in the year to meet a liability the Company had for carbon credits. There has been no carbon credit sales for the financial year.

CITY FORESTS LIMITED

Notes to the Financial Statements Cont'd/.... For the Year Ended 30 June 2015

As at 30th June 2015, 751,115 units were unsold (2014 751,028). 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 2015 \$'000	As at 30 June 2014 \$'000
New Zealand carbon credits	4,994	3,079

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.

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

	As at 30 June 2015 \$'000	As at 30 June 2014 \$'000
Net gain/(loss) for the year	7,042	8,291
<i>Items Not Involving Cash Flows</i>		
Depreciation and loss on sale	385	482
Depletion of forest	2,197	2,487
Deferred tax	1,031	834
Depreciation recovered/capital gains	(55)	(12)
Forestry revaluation	(2,515)	(1,571)
Impairment of fixed assets	(80)	1,500
Write down of investment value	-	208
Other non-cash items		
<i>Impact of Changes in Working Capital Items</i>		
(Increase)/Decrease in accounts receivable	(507)	(2,041)
(Increase)/Decrease in inventories	170	308
(Increase)/Decrease in prepayments	220	(207)
(Increase)/Decrease in tax refund due	693	(156)
Increase/(Decrease) in accounts payable	280	1,025
Increase/(Decrease) in other current liabilities	(18)	(80)
(Increase)/Decrease in current assets	(109)	(2,790)
Net cash inflows/(outflows) from operating activities	8,734	8,278

CITY FORESTS LIMITED

Notes to the Financial Statements Cont'd/.... For the Year Ended 30 June 2015

32. DISCONTINUED OPERATIONS

The Directors of City Forests Limited agreed as at 30th June 2012 to cease operating the wood processing site at Milburn. This has been leased to a third party as at 1st July 2012. The activities related to the wood processing plant have been reclassified to discontinued operations.

	30 June 2015 \$'000	30 June 2014 \$'000
Revenue	382	480
Total revenue	382	480
Movement in inventory	(99)	(115)
<i>Less expenses</i>		
Depreciation	63	156
Impairment of wood processing assets	(80)	1,500
Other expenses	26	84
Total expenses	9	1,740
Net Profit/(Loss) before tax	274	(1,375)
Income tax expense (benefit)	77	(385)
Profit/(Loss) for the period from discontinued operations	197	(990)

33. RELATED PARTY TRANSACTIONS

Amounts receivable from and payable to related parties at balance date are disclosed in notes, 13, 23 and 17.

Transactions with Dunedin City Council Group

City Forests Limited undertakes transactions with Dunedin City Council and other Dunedin City Council controlled entities on an arms length commercial basis. The company purchased goods and services and traded with Dunedin City Council in respect of the following transactions:

CITY FORESTS LIMITED

Notes to the Financial Statements Cont'd/.... For the Year Ended 30 June 2015

	As at 30 June 2015 \$'000	As at 30 June 2014 \$'000
Purchases of goods and services from the Dunedin City Council:		
Rates and property rentals	13	10
Administration and office services	-	1
Other	3	41
	<u>16</u>	<u>52</u>
Dunedin City Holdings Limited		
Managing Services	50	50
Dividends	5,000	5,100
Delta Utility Services Limited		
Roading & Earthmoving Services	388	305
Payable to Dunedin City Council as at balance date	<u>-</u>	<u>1</u>
Payable to Delta Utility Services Limited	<u>48</u>	<u>36</u>
Payable to Dunedin City Holdings Limited	<u>-</u>	<u>14</u>
Subvention payments:		
Dunedin Venues Limited	-	463
Dunedin Venues Management Limited	-	138
	<u>-</u>	<u>601</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>13,430</u>	<u>13,850</u>
Loans received during the year	6,960	11,028
Loans paid during the year	7,380	10,770
Interest due to Dunedin City Treasury Limited as at balance date	108	96
Interest paid during the year	879	911
Interest received during the year	-	55
Other payments including facility fees	215	219

CITY FORESTS LIMITED

Notes to the Financial Statements Cont'd/.... For the Year Ended 30 June 2015

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

Transactions with Associate Companies

The Company also conducted the following commercial transactions with associate companies:

	Year ended 30 June 2015 \$'000	Year ended 30 June 2014 \$'000
Sales of goods and services to associate companies:		
Management fees received from Otago Chipmill Limited	-	8
At year end the following amounts were owed to and from the Associated Company:		
Receivable from associate companies	-	-

No related party debts have been written off or forgiven during the year and no provision has been required for impairment of any receivables to related parties.

Transactions with companies in which directors have an interest:

- During the course of the year:

Mr T D Allison had related party interests with the following organisations during the year.

Director, Otago & Southland Employers Association Subscription	1	1
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Mr M C Horne had related party interests with the following organisations during the year.

Director, Palmers Mechanical Limited.	76	10
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Director, Deloitte

Financial Services/Directorship	131	146
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CITY FORESTS LIMITED

Notes to the Financial Statements Cont'd/.... For the Year Ended 30 June 2015

33. 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.

Year ended 30 June 2015 \$'000	Year ended 30 June 2014 \$'000
--	--

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

Payable to:

Palmers Mechanical	2	9
Deloitte	20	13

Compensation of key management personnel

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

Salaries and Short-term benefits	892	860
Post-Employment benefit	-	-
	892	860

The remuneration of directors is agreed annually by the Dunedin City Council 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.

34. 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.

35. SUBSEQUENT EVENTS TO BALANCE DATE

Post balance date Otago Chipmill Limited directors accepted an offer of \$AUD65,000 for the purchase and removal of all plant items. City Forests wrote this investment value down to \$nil in 2014.

City Forests Limited

STATEMENT OF SERVICE PERFORMANCE

For the Year Ended 30 June 2015

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. A comprehensive review of the Company's long term strategic plan will have been completed which meets the objective of a 7% return on shareholders' funds.	A strategy day was held on 12 th June 2015 involving the Board and Senior Managers. The Company's long term strategic plan has been reviewed and accepted by the shareholder as part of the annual budget and strategy process.
1b. Opportunities for expanding the Company's scale will have been investigated.	The strategic plan incorporates a modest forest expansion program. No new purchases occurred during the year but a number of opportunities were investigated.
1c. Opportunities for balancing the Company's exposure to United States Dollar revenues taking into account market and product margin factors will have been implemented.	The Company maintains a significant USD foreign exchange forward cover position in line with Company policy. Domestic Log sales are a key part of the marketing strategy
2a. Strategic marketing plan will support regional wood processing.	The strategic plan incorporates domestic log sales and optional stumpage tender sales providing logs for regional wood processing.
3a. The marketing strategy and plan will be updated.	Our log marketing strategy has been reviewed during the year and reported in the Board Papers. It has been approved by the Board.
3b. No single customer will have received more than 30% of the Company's annual harvest by volume.	Our largest customer Craigpine Timber Limited received 12.5% of the Company's annual harvest volume.
3c. The company will maximise financial opportunities from the sale of Carbon stored in the company forests.	The Company has re-registered its forests into the Emission Trading Scheme during the period. Carbon Accounting policies have been reviewed.
4a. Contracted monthly log delivery requirements for customers will be met within plus or minus ten percent 80% of the time.	On an annualised basis all customers received their contracted volumes within plus or minus 10%. Variations were by mutual agreement.
4b. Log deliveries will be at least 95% within specification measured by log quality audit.	Sampled logs were 95.46% within specification for the year.
5a. The annual harvest from the forest estate will be within 20% of the long term sustainable yield.	The annual harvest from the CFL forest estate was 299,377 m ³ . This is 109% of sustainable yield of 275,000 m ³ .
5b. An annual forest health report will have been completed by 30 th June 2015.	An annual forest health report was completed in the third quarter of 2014.

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	<u>Performance Targets</u>	<u>Achievement</u>
5c	The annual fire plan will be updated and operational.	Fire plan was completed in September 2014 prior to the start of the fire season.
5d	The Company will actively participate in regional land use planning processes.	The Company actively participated in the Otago Regional Council Plan Change 6a process and the Forestry National Environmental Standard process.
6b.	The Company will have reviewed the best species and silvicultural management plan to apply to annual operational areas.	This process was completed and lead to the cessation of expanding C.marcoarpa planted area and the deployment of P.radiata clones on high productivity sites.
7a.	The Company will participate in Industry Research Consortia.	The Company has paid the Forest Growers Levy and is directly involved through the Forest Owners Association in the allocation of Levy Funds.
7b.	At least one new forest management technique will be introduced as a result of research findings.	Forest plantings of clone seedlings have been established across a range of sites. Increased Harvesting mechanisation has been achieved.
8a.	Forest Stewardship Council Certification will be maintained.	Forest Stewardship Council Certification was maintained following audit in the last quarter of 2014.
8b.	Lost time accident rates for staff and contractors will be reduced to a maximum 30 lost time injuries per 1,000,000 hours.	Lost time accident rates for staff and contractors was 12.4 lost time injuries per 1,000,000 hours. (26.5 in 2014)
8c.	A current forest management plan will be in place which identifies social and environmental, as well as economic outputs.	The company has a comprehensive forest management plan that has been externally audited as part of the FSC certification process. This covers all forest areas.
9a.	The Company will have in place an environmental management system which will include procedures for sustainability monitoring.	An environmental management system is in place with on-going monitoring of environmental values. This is available on the Company's website.
9b.	The Company will incorporate Carbon Accounting in the Strategic Plan.	The Company has prepared and reported on a carbon budget in the annual accounts. A carbon strategy has been agreed at the 2013 strategy review and is being implemented.
10a.	Every staff member will have a personal development plan in place.	Forest staff members are working towards achieving Personal Development Plans. Other training provided as necessary. Contractors are required to have a training plan for their employees.
10b.	Harvesting and Silviculture contractors will have a training plan in place for their employees.	Each harvesting crew has training plans and training records for all employees audited by the Company.
10c.	Each harvesting crew will have a trained log maker.	Each harvest crew has multiple trained log makers.

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| 10d. | 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. | All 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. |