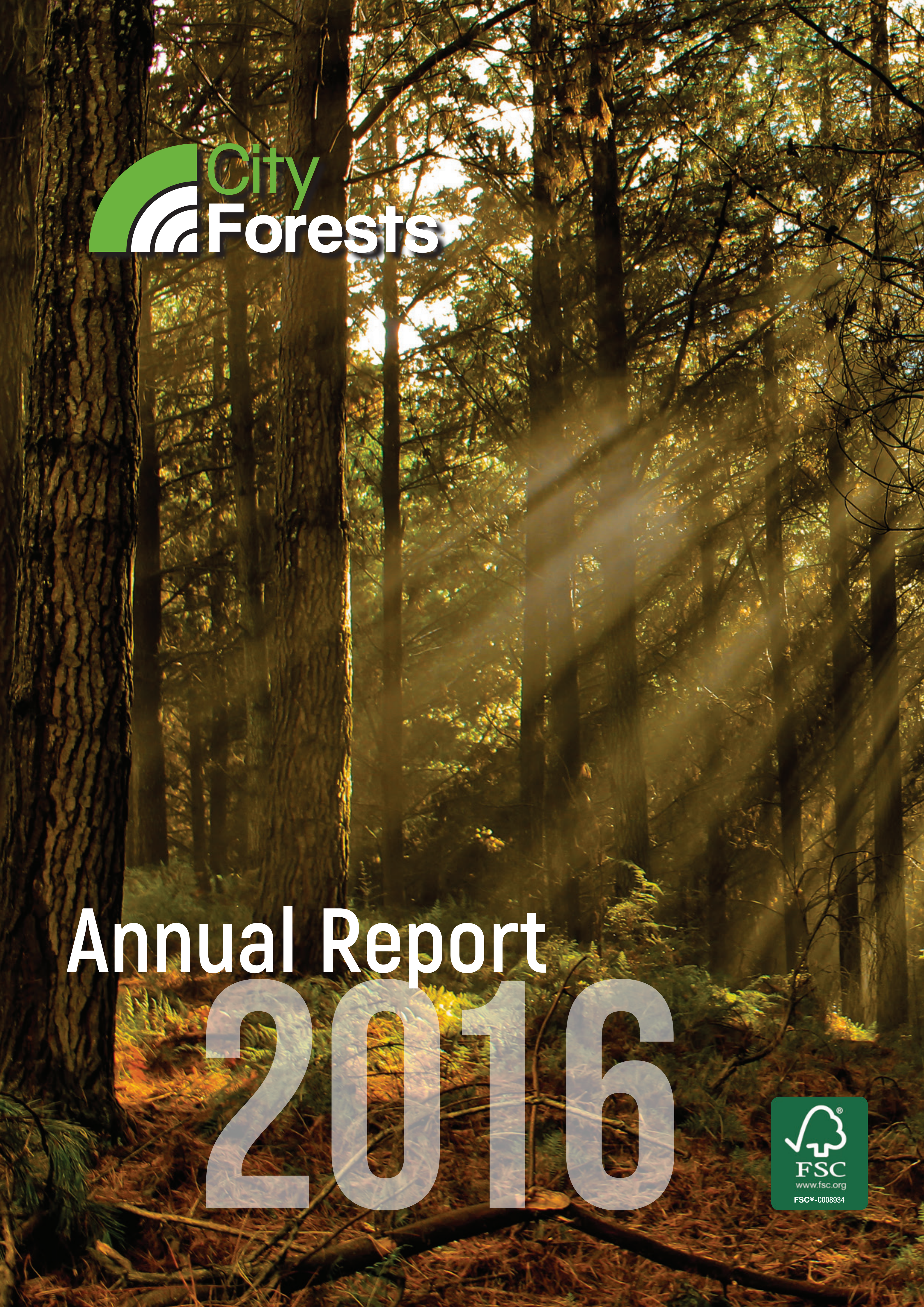
City Forests

Annual Report 2016



FSC
www.fsc.org
FSC®-C008934

DIVIDEND

$6.5M

$5.0 million
2014-15

HEALTH & SAFETY

18.2

LTIF per 1 million hours worked

Target 25 maximum


COMMUNITY
40.6
kilometres of tracks
529
access permits

CONTENTS

3	Director's Report
14	Company Particulars
15	Information on Directors
17	Trend Statement
18	Financial Statements
22	Statement of Cashflows
24	Notes the Financial Statements
59	Statement of Service Performance
62	Audit Report

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City Forests

www.cityforests.co.nz

DIRECTOR'S REPORT

For the year ended 30 June 2016

The Directors of City Forests Limited are pleased to present their report on the activities of the Company for the year ended 30 June 2016.

Principal activities of the Company

This report covers the financial year 1 July 2015 to 30 June 2016.

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

Results for the year ended 30 June 2016	$000
Operating surplus before income tax and impairment	22,274
Less income tax	6,253
Net surplus for the year	16,021

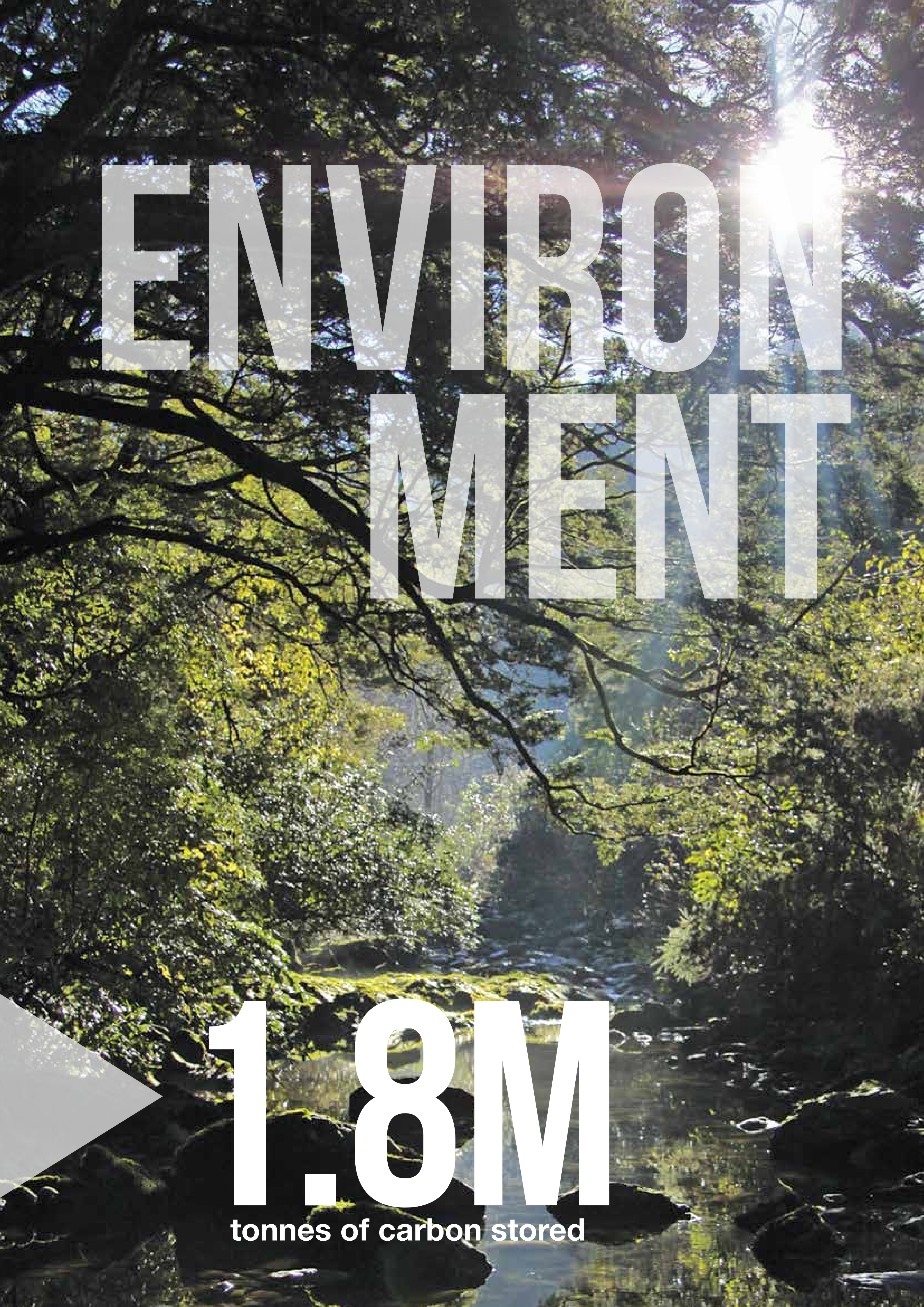
State of affairs

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 $6,500,000 in dividends during the year made up of;

- an interim un-imputed dividend of $1,500,000 in December 2015,
- a final un-imputed dividend of $3,000,000 in June 2016,
- a special un-imputed dividend of $1,000,000 in June 2016,
- a provision for a special dividend of $1,000,000 in June 2016.



ENVIRONMENT

1.8M
tonnes of carbon stored

(The Directors declared an additional special dividend during the year. However, this was not paid until after year end.)

Donations
There have been donations made of $7,604 during the year.

Changes in accounting policies
There has been no change in accounting policies during the year.

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

	$'000
To forestry reserve	6,857
To retained earnings	2,665
To hedging reserve	1,418
To land revaluation reserve	–
To carbon credit reserve	8,470

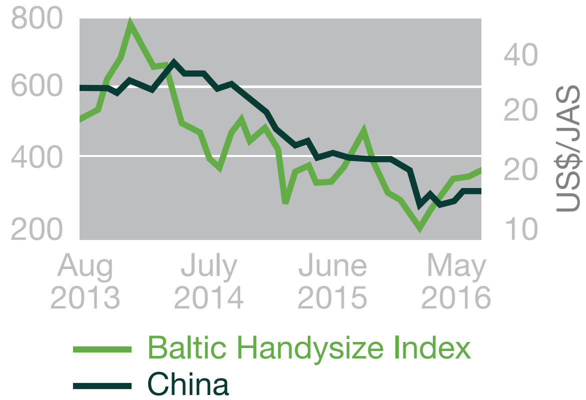
Review of operations
This review of operations and the accompanying financial reports cover the 1 July 2015 to 30 June 2016 financial year.

Directors are pleased to report a record financial performance for City Forest Limited for the year in terms of both operational profit recorded of $16.021m and dividends paid of $6.5m. A summary of markets and operational factors contributing to the result is detailed below.

Log export markets
The first quarter of the financial year was relatively quiet as the Asian log markets, notably China worked through an overstock situation. From October 2015 the demand situation was rapidly reversed as log stocks in the Chinese market dropped to low levels and buyers scrambled to build inventory in a busy market boosted by Chinese government stimulus. South Korea, the Company's other significant log export destination, although more stable in demand, followed China's lead accepting log price increases. Prices in both markets rose significantly but did not reach the high points seen in earlier years.

The cost of international shipping to Asian markets fell substantially during the year to levels not seen for several decades. An oversupply of shipping capacity in a generally flat world commodity market combined with significantly lower fuel costs reduced shipping costs to Asia to below half of the Company's long-term average cost.

Shipping cost



Source: AgriHQ, Lloyd's List Intelligence

In addition, the value of United States Dollar receipts converted to New Zealand Dollars increased significantly as the value of the New Zealand Dollar weakened.

The combination of increased log market prices, reduced shipping costs and a lower value New Zealand Dollar delivered a period of very strong log export returns for New Zealand forest owners. Log export returns have moderated to a limited extent in the final quarter of the financial year as shipping costs and the value of the New Zealand Dollar have increased. However, returns are still strong when compared to long-term averages.


GROWTH
+22%
total revenue
+15%
total assets

Ten Year Combined Log Indicator

Combination of pruned, unpruned and pulp indices for New Zealand

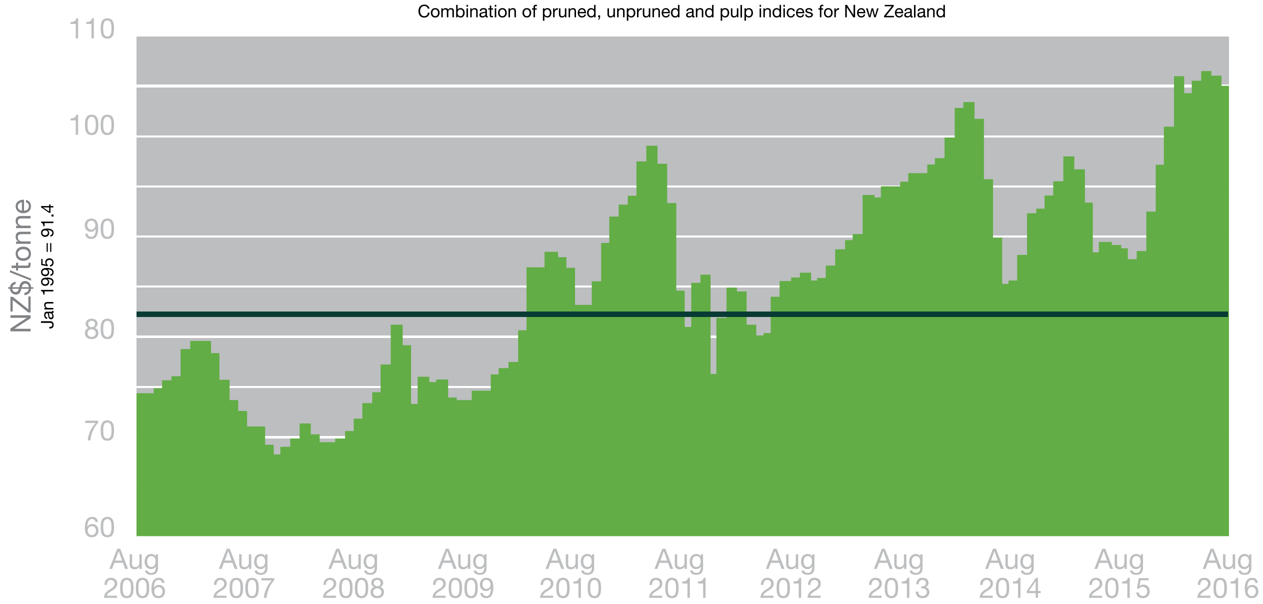


Chart: New Zealand Industry Average Log Prices
Source: AgriHQ

Foreign exchanging hedging

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

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

Domestic log market

The Company continues to supply domestic mills in Otago and Southland and where possible prioritises supply to domestic mills. Overall 45.1% (35.5% previous year) of log production from the Company's forests was supplied to domestic customers. Domestic supply is principally limited by production availability of the required domestic log grades and domestic processing capacity.

Most domestic wood processing customers enjoyed a positive year with strong lumber demand from a buoyant New Zealand housing construction market and the lower value of the New Zealand Dollar increasing returns from lumber exports.

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

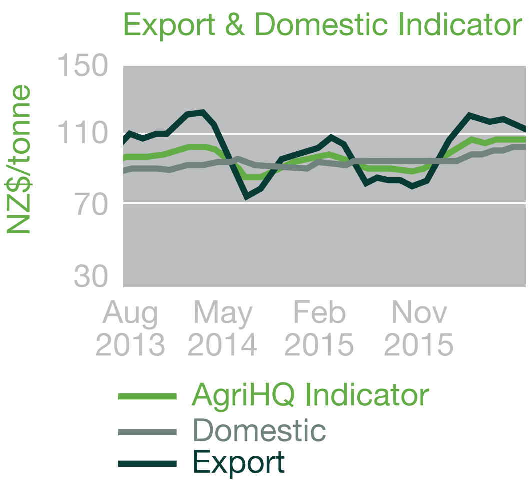


Chart: New Zealand Industry Average Export and Domestic Prices

Looking forward into the coming financial year the Company is expecting to increase its supply to domestic mills as more processing capacity comes on stream.

Bio-energy

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

Forest production

The Company had a busy production year making the most of favourable log markets. The overall cut from the forest estate was 306,452m3. This represents approximately a 4% overcut compared to its long term sustainable cut level. This overcut arose from an increased harvest of minor species. The Company has taken the opportunity provided by the favourable market to clear a number of low productivity stands. This has been done profitably and the sites will be re-established in more productive Pinus radiata. Importantly, the sustainable cut of the Company's major production species, Pinus radiata, was undercut for the year as harvesting capacity was utilised clearing the minor species areas.

The Company handled a total volume of 372,364m3 for the year. The 65,912m3 of outside wood represents a record volume of traded wood for the Company. The volume arose principally due to the Company optimising its harvesting capacity. Harvest capacity is shared by third parties who harvest woodlot volume and generally trade the logs through City Forests' market channels. The arrangement allows the Company to fully utilise its supply chain contractors without overcutting the forest.

Roading and infrastructure

A roading network of approximately 306 km is established in the Company's estate. Fifty-eight kilometres of major roads provide arterial access throughout the estate. Secondary roads, minor roads or tracks are upgraded prior to harvest and are generally kept operational for harvesting the next crop rotation. Regular maintenance is carried out principally by Delta Utility Services Limited, a sister company.

Forest asset operations

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

The Company is also involved in research to reduce the amount of herbicide applied to its estate. Although the use of herbicide is essential to ensure successful establishment of a tree crop in the early years potential exists to minimise herbicide use and a number of trials are underway to evaluate options. The reduction in chemical use is part of the Company's Forest Stewardship Council (FSC) programme.

The Company thins all its forests selecting the best trees to grow on to final harvest. Pruning is carried out on its most productive sites to ensure a continued supply of high quality clear wood logs principally for domestic mills.

Health and safety

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

The Company recorded a Lost Time Injury Frequency (LTIF) of 18.2 lost time injuries per 1 million hours worked (12.4 previous year). Three incidents – a harvest landing injury, a back injury and a minor eye 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 accordance with its annual plan. The areas of driver training, tree felling, breaking out, internal safety audit systems and drug and alcohol testing were specific focus areas for the year.

Sustainable forest management

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

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

The Company acknowledged service provider Gunion Contracting Silviculture Services for five years with zero lost time injuries

FSC www.fsc.org FSC®-C008934

The mark of responsible forestry

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

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

Carbon

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

The Company received an allocation from an emission return of 214,788 NZU during the year. Future emission returns to claim the periodic increase in carbon sequestration by Company forests are currently on hold while the Company waits for a re-measurement of its carbon plots which will allow the refinement and adoption of Company specific carbon yield tables. This will occur in the coming financial year and an emissions return is expected to be submitted during the first quarter of 2017.

The Company has not traded any NZU during the year. The market price of an NZU has increased approximately three fold during the year from $6.00 to $17.90.

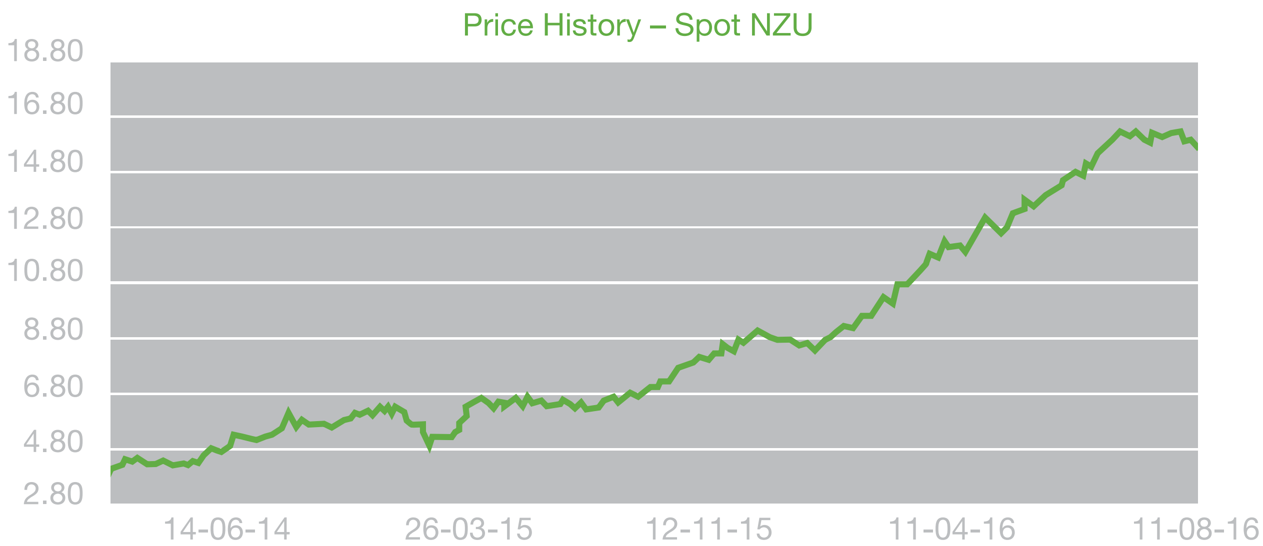


Chart: NZU Price. Source: OM Financial

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

New land acquisition

During the year the Company purchased the Kaitangata Mines Block through an open tender from Solid Energy (in voluntary administration). The block has 160ha of productive forest situated close to its existing Tokoiti and Kaitangata forests. The block is established in healthy three to six year old Pinus radiata and will provide a positive addition to the Company's sustainable cut level as it matures. The Company continues with its strategy of modest estate expansion where quality forest or land can be acquired economically in proximity to existing work areas.

Milburn processing plant

The Company retains ownership of the Milburn processing plant which continues to be leased to Craigpine Timber Limited. The lease has operated smoothly for the year and is profitable.

Forest valuation

Company Forests are valued annually on 30 June and increased in value by $9.524m from the previous year. The main driver in the valuation increase was a reduction in applied discount rate to 6.5% (previously 7%). This added $6.1m to the forest value and the change reflects a reduction in benchmarked discounts rates used by the forest industry.

Market log price increases incorporated into the five year price averaging calculation and the increase in the market value of carbon were the other primary drivers of the forest value increase.

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

Dividends

The Company has declared a record dividend to the shareholder of $6.5m during the year. This has been increased from the projected $4.5m due to the favourable trading conditions experienced during the year.

Social and environmental contributions

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

NZ Army's Bravo Company 2/4 RNZIR held 'Exercise Moss Ridge' in the Company's Waipori Forest

The Company's financial contribution to the community has continued and a number of donations totalling $7,604 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.

Future strategy

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

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

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

In summary, the 2015–2016 year has been favourable in terms of health and safety performance, operations, profit and dividends paid. Director's focus is to ensure the Company is run on a long-term sustainable basis and that operational performance improvement and business growth occurs so long-term wealth is built for the shareholder.

Outlook

The outlook for the 2017 financial year is to deliver a positive result. The underlying operational performance is predicted to be similar to 2016; however, this will be dependent on how log prices track throughout the year.

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 2017 year.

Looking to the medium-term future the Company is optimistic that the New Zealand forest industry will continue to generate favourable returns in international and domestic log markets. This is driven by strong demand for wood products 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.

Change of Directors

No changes in Directors occurred during the period.

Financial statements

The audited financial statements for the year ended 30 June 2016 are attached to this report.

Directors' interests in contracts

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

	Number of employees
$140,000 – 150,000	1
$160,000 – 170,000	1
$170,000 – 180,000	1
$280,000 – 290,000	1

Information on the Directors of City Forests Limited

Director and responsibilities	Remuneration $000 2016	2015
John F Gallaher	53	52
Non-Executive Director (Appointed 1 November 2012)		
Chairman Remunerations Sub Committee (Appointed 1 October 2013)		
Tony D Allison	28	27
Non-Executive Director (Appointed 1 November 2012)		
Chairman Audit Committee (Appointed 1 October 2013)		
Tim J Mepham	28	27
Non-Executive Director (Appointed 1 December 2013)		
Michael C Horne	28	27
Non-Executive Director (Appointed 9 December 2013)		

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.

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

30/8/16

T D Allison
Director

30/8/16

COMPANY PARTICULARS
As at 30 June 2016

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 Mepham – 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

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 Chairman, 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 Director, Dunedin International Airport Limited Director, Forbury Park Trotting Club Director, Smith City Finance Limited Director, Smith City (Southern) Limited Director, Smith City Properties Limited Director, SGG Finance Limited Director, Smith City Group Limited
Date appointed 1st November 2012	
Mr Tim J Mepham (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	

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, 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

TREND STATEMENT

FINANCIAL PERFORMANCE	Year Ended 30 Jun 16 $'000	Year Ended 30 Jun 15 $'000	Year Ended 30 Jun 14 $'000	Year Ended 30 Jun 13 $'000	Year Ended 30 Jun 12 $'000
Domestic Revenue	12,335	9,412	12,687	13,590	8,652
Export Revenue	33,861	26,751	22,108	18,983	30,869
Other Revenue	656	2,228	2,385	2,652	2,703
Total Revenue	**46,852**	**38,391**	**37,180**	**35,225**	**42,224**
Percentage Increase	22.0%	3.2%	5.5%	(16.6%)	(7.9%)
Inventory Movement	(224)	(170)	(308)	(479)	(820)
Total Expenses	**35,341**	**31,072**	**28,216**	**29,514**	**41,705**
Percentage Increase	13.7%	(10.1%)	(4.4%)	(29.2%)	(2.7%)
Operating Surplus	**11,287**	**7,149**	**8,656**	**5,232**	**(301)**
New Zealand Carbon Credits	1,462	-	2,694	6,172	2,316
Gain in fair value of forestry asset	9,524	2,515	1,571	7,046	3,503
Impairment Charges	-	(80)	1,500	-	3,000
Surplus After Non-Operating Items And Before Taxation	**22,273**	**9,744**	**11,421**	**18,450**	**2,518**
Income Tax	6,252	2,702	3,130	3,836	641
Total Surplus after Taxation	**16,021**	**7,042**	**8,291**	**14,614**	**1,877**
SHAREHOLDERS' FUNDS					
Shareholders Funds	115,670	96,649	95,932	91,725	81,938
Operating Cash flow	11,787	8,734	8,278	17,263	5,130
Dividends Paid - Normal	4,500	4,500	2,600	2,400	2,200
- Special	2,000	500	2,500	2,000	-
Value of Forest	123,802	113,629	111,093	108,589	103,528
Surplus after tax to shareholders funds	13.85%	7.29%	8.64%	15.93%	2.29%
Proprietorship Ratio	65.12%	62.53%	63.34%	61.89%	56.10%
Net Forest Revaluation	9,524	1,811	1,131	5,073	2,522
Net Land Revaluation	–	(22)	(102)	-	(505)
FOREST STATISTICS	(whole no's)				
Forest harvested (m^3)	306,452	299,377	284,373	302,096	266,281
Volume traded (m^3)	71,364	18,530	2,583	1,917	27,151
Forest planted (ha)	487	605	602	520	732
Total forest (ha)	16,469	16,315	16,326	16,114	16,129
Forest purchased (ha)	156	-	204	-	-

Statement of Comprehensive Income
For the Year Ended 30 June 2016

	Note	Year to 30 June 2016 $'000	Year to 30 June 2015 $'000
Revenue	**3**	48,304	36,902
Financial income	**4**	11	1,489
Gain/(loss) in fair value of forestry asset	**28**	9,524	2,515
Total revenue		57,839	40,906
Inventory movement		(224)	(170)
Less expenses			
Contractors		14,192	14,322
Depreciation and amortisation expense		410	386
Directors fees		137	134
Employee expenses		1,398	1,191
Financial expenses	**6**	1,235	1,142
Other expenses	**5**	17,970	13,817
Total expenses		35,342	30,992
Profit before tax		22,273	9,744
Income tax expense		6,252	2,702
NET PROFIT/(LOSS) AFTER TAX		16,021	7,042
Other comprehensive income			
Gains/(loss) on foreign exchange hedges taken to equity		1,971	(3,938)
Tax effect of foreign exchange hedges taken to equity		(552)	1,103
Increase/(decrease) in land revaluation		-	(22)
Carbon credits revaluation above initial recognition taken to equity		10,832	1,917
Tax effect of carbon taken to equity		(2,362)	(385)
Other comprehensive income for the year		9,889	(1,325)
Total Comprehensive Income for the Year		25,910	5,717

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

Statement of Changes in Equity
For the Year Ended 30 June 2016

	Note	Year to 30 June 2016 $'000	Year to 30 June 2015 $'000
Equity at beginning of year		96,649	95,932
Total comprehensive income for the year		25,910	5,717
Distribution to owners			
Dividends	**8**	(6,500)	(5,000)
Equity at end of year		116,059	96,649

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

Balance Sheet
As at 30 June 2016

	Note	As at 30 June 2016 $'000	As at 30 June 2015 $'000
Equity			
Share Capital	10	25,691	25,691
Forestry reserve	11	55,799	48,942
Land revaluation reserve	11	14,847	14,847
Hedging reserve	11	(955)	(2,373)
Carbon credit reserve	11	11,290	2,820
Retained earnings	12	9,387	6,722
Total Equity		116,059	96,649
Current Liabilities			
Trade and other payables	13	3,098	2,832
Other current liabilities	15	293	278
Employee Provisions	16	120	125
Derivative financial instruments	14	524	1,112
Current portion of term borrowings	17	1,686	1,686
Provision for taxation		2,274	1,146
Provision for dividend		1,000	-
Total current liabilities		8,995	7,179
Non-Current Liabilities			
Derivative financial instruments	14	947	2,184
Term borrowings	17	16,832	19,518
Other liabilities	15	320	320
Deferred tax liability	18	34,871	28,716
Total non-current liabilities		52,970	50,738
Total Liabilities		61,965	57,917
TOTAL EQUITY PLUS LIABILITIES		178,024	154,566

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

	Note	As at 30 June 2016 $'000	As at 30 June 2015 $'000
Current Assets			
Cash and cash equivalents	22	302	474
Trade and other receivables	23	4,162	3,995
Derivative financial instruments	14	69	-
Inventories	25	193	417
Prepayments		274	181
Other current assets	24	253	262
Property intended for sale	30	16	-
Total current assets		5,269	5,329
Non-Current Assets			
Derivative financial instruments	14	76	-
Property, plant and equipment	29	31,556	30,566
Forestry assets	28	123,802	113,629
Investments	26	1	1
Intangibles – computer software	27	32	47
Intangibles – New Zealand carbon credits	31	17,288	4,994
Total non-current assets		172,755	149,237
TOTAL ASSETS		178,024	154,566

For and on behalf of the Board of Directors

J F Gallaher
Chairman

30/8/16

T D Allison
Director

30/8/16

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

Statement of Cash Flows
For the Year Ended 30 June 2016

	Note	Year to 30 June 2016 $'000	Year to 30 June 2015 $'000
Cash Flows from Operating Activities			
Cash was provided from			
Receipts from customers		46,780	36,162
Interest received		11	14
Effect of exchange rate changes		-	1,475
		46,791	37,651
Cash was disbursed to			
Payments to suppliers and employees		31,871	27,072
Interest paid		899	867
Income tax		1,884	978
Effect of exchange rate changes		350	-
		35,004	28,917
Net Cash Inflows/(Outflows) from Operating Activities	**31**	11,787	8,734
Cash Flows from Investing Activities			
Cash was provided from			
Sale of property, plant and equipment		37	719
		37	719
Cash was disbursed to			
Purchase of property, plant and equipment		1,627	368
Purchase of Forest Assets – Cost of bush		1,753	1,708
		3,380	2,076
Net Cash Inflows/(Outflows) from Investing Activities		(3,343)	(1,357)

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

	Year to 30 June 2016 $'000	Year to 30 June 2015 $'000
Cash Flows from Financing Activities		
Cash was provided from		
Proceeds from borrowings	3,790	6,960
	3,790	6,960
Cash was disbursed to		
Repayment of borrowings	6,906	9,066
Dividends paid	5,500	5,000
	12,406	14,066
Net Cash Inflows / (Outflows) from Financing Activities	(8,616)	(7,106)
Net Increase / (Decrease) in Cash Held	(172)	271
Cash and short term deposits at the beginning of the year	474	203
CASH AND SHORT TERM DEPOSITS AT THE END OF THE YEAR	302	474
Composition of Cash		
Cash and short term deposits	302	474

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

Notes to the Financial Statements
For the Year Ended 30 June 2016

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 and the Companies Act 1993.

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

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

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

The financial statements were authorised for issue by the Directors on 30th August 2016.

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.

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.

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.

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.

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:

	Rate	Method
• Freehold Buildings	2% - 3%	Straight Line
• Roads	5% - 24%	Diminishing Value
• Bridges	2% - 2.4%	Diminishing Value
• Plant and Equipment	6% - 80.4%	Diminishing Value
• Fences	10% - 13%	Diminishing Value
• Motor vehicles	9.6% - 36%	Diminishing Value
• Office equipment	10% - 60%	Diminishing Value

Derecognition

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

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

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.
- 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.

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.

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

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 2016.

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

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 2016 $'000	As at 30 June 2015 $'000
3. OPERATING REVENUE		
Sales revenue	46,663	36,632
New Zealand carbon credits	1,462	-
Gain on sale of property, plant and equipment	22	20
Other revenue	157	250
	48,304	36,902
4. FINANCIAL INCOME		
Interest on other investments	11	14
Effect of exchange rate gains	-	1,475
	11	1,489

No interest is earned on impaired or restricted assets

5. OTHER EXPENSES

Audit fees - for audit of financial statements	34	34
Donations	8	23
Loss on sale of property, plant and equipment	-	-
Rental expense on operating leases	76	72
Research expenditure	192	134
Cost of bush applied	1,535	2,197
Shipping costs	6,147	6,241
Other expenses	9,978	5,116
	17,970	13,817

	As at 30 June 2016 $'000	As at 30 June 2015 $'000

6. FINANCIAL EXPENSES

	2016 $'000	2015 $'000
Movement in commodities	-	47
Interest - related parties	885	879
Facility fees – related parties	-	215
Effect of exchange rate losses	350	-
Total financial expenses	1,235	1,141

7. EARNINGS PER SHARE

	2016	2015
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	62.36c	27.41c
Number of shares		
Weighted average number of ordinary shares	25,690,522	25,690,522

8. DIVIDENDS

	As at 30 June 2016 $'000	As at 30 June 2015 $'000
The following dividends were paid by the company:		
Interim dividend - $0.0508 per share	1,500	1,400
Final dividend - $0.1168 per share	3,000	3,100
Special dividend – $0.0389 per share	1,000	500
Provision for special dividend $0.0389 per share	1,000	-
(The Directors declared an additional special dividend during the year. However, this was not paid until after year end.)		
	6,500	5,000

9. INCOME TAX

Net profit/(loss) from continued operations	22,273	9,744
Profit before income tax	22,273	9,744
Tax thereon at 28%	6,236	2,729
Plus/(less) the Tax Effect of Differences		
Income not assessable for taxation	-	(33)
Expenditure not deductible for taxation	10	2
Under / (over) tax provision in prior years	6	4
Tax effect of differences	16	(27)
Tax expense	6,252	2,702
Tax expense made up as follows:		
Continued operations	6,252	2,702
	6,252	2,702
Effective tax rate	28.1%	27.7%
Represented by		
Current tax provision	3,005	1,667
Deferred tax provision	3,241	1,031
Under / (over) tax provision in prior years	6	4
	6,252	2,702

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.

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 2016 $'000	As at 30 June 2015 $'000

10. EQUITY - Share Capital

Issued Capital	25,691	25,691

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.

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	48,942	47,131
Transfer from retained earnings	6,857	1,811
Balance at the end of the year	55,799	48,942

Hedging Reserve

Balance at beginning of the year	(2,373)	462
Gain/(loss) in fair value movement in derivatives	1,418	(2,835)
Balance at the end of the year	(955)	(2,373)

Land Revaluation Reserve

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

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.

11. RESERVES Cont'd/….

	As at 30 June 2016 $'000	As at 30 June 2015 $'000
Carbon Credit Reserve		
Balance at beginning of the year	2,820	-
Transfer from retained earning	-	1,288
Gain in carbon credits above initial recognition value	8,470	1,532
Balance at the end of the year	11,290	2,820

The movement in 2015 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	6,722	7,779
Net profit/(loss) for the year	16,021	7,042
Dividend distributions	(6,500)	(5,000)
Transfer to forestry reserve	(6,856)	(1,811)
Transfer to carbon credit reserve	-	(1,288)
Balance at the end of the year	9,387	6,722

13. TRADE AND OTHER PAYABLES

Trade payables	3,098	2,832
	3,098	2,832

The amounts due to customers under construction contracts at 30 June 2016 were $nil (2015: $nil).

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

14. FINANCIAL INSTRUMENTS

	As at 30 June 2016 $'000	As at 30 June 2015 $'000
Financial Assets		
Trade and other receivables	4,162	3,995
Derivative financial instruments	145	-
	4,307	3,995
Analysed as:		
Current	4,231	3,995
Non-Current	76	-
	4,307	3,995
Financial Liabilities		
Trade and other payables	3,098	2,832
Derivative financial instruments	1,471	3,296
Borrowings	18,518	21,204
	23,087	27,332
Analysed as:		
Current	6,123	6,582
Non-Current	16,964	20,750
	23,087	27,332

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.

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 2016	Foreign currency 2016 FC'000	Contract value 2016 NZD'000	Fair value 2016 NZD'000	Fair value 2015 NZD'000
Cashflow hedges					
Sell USD					
Current	0.74	6,600	8,915	(313)	(1,113)
Non current	0.769	3,200	4,159	(8)	(1,232)
Buy USD					
Current	0.703	200	285	(5)	-
Non current	0.837	1,200	1,434	(48)	-
				(374)	(2,345)

2016	<1 yr	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	5 yrs	Total
Financial Assets							
Trade and other receivables	4,162	-	-	-	-	-	4,162
Derivative financial instruments	69	76	-	-	-	-	145
	4,231	76	-	-	-	-	4,307
Financial Liabilities							
Trade and other payables	3,098	-	-	-	-	-	3,098
Derivative financial instruments	524	132	536	-	-	279	1,471
Borrowings	1,686	1,686	1,686	2,610	-	10,849	18,517
	5,308	1,818	2,222	2,610	-	11,128	23,086

2015	<1 yr	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	5 yrs	Total
Financial Assets							
Trade and other receivables	3,995	-	-	-	-	-	3,995
Derivative financial instruments	-	-	-	-	-	-	-
	3,995	-	-	-	-	-	3,995
Financial Liabilities							
Trade and other payables	2,832	-	-	-	-	-	2,832
Derivative financial instruments	1,113	1,180	343	584	-	76	3,296
Borrowings	1,686	1,686	1,686	1,686	1,030	13,430	21,204
	5,631	2,866	2,029	2,270	1,030	13,506	27,332

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 2016 $'000	As at 30 June 2015 $'000
Maturing in less than one year	5,000	-
Maturing between one and five years	5,000	10,000
Maturing after five years	3,000	3,000
	13,000	13,000

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.

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 .7310 and against the AUD from the year end rate of .9801.
- A parallel shift of +1% / -1% in the NZD market interest rate from the year end 90 day BBBR of 2.41%.

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	Interest rate				Foreign exchange			
	$'000	-100bp		+100bp		-10%		+10%	
	Profit	Equity	Profit	Equity	Profit	Equity	Profit	Equity	Profit
Financial Assets									
Derivatives									
Currency Hedges – Sell USD	13,406	-	-	-	-	-	1,490	-	(1,219)
– Buy USD	2,016	-	-	-	-	-	(224)	-	183
Other Financial Assets	4,102	-	-	-	-	-	325	-	(266)
Financial Liabilities									
Interest rate swaps	13,000	(295)	-	286	-	-	-	-	-
Total increase/(decrease)		(298)	-	286	-	-	1,591	-	(1,302)

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 $2.135 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.

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).

		2016		
	Level 1 NZ $'000	**Level 2 NZ $'000**	**Level 3 NZ $'000**	**Total NZ $'000**
Financial assets				
Derivative financial assets	-	145	-	145
New Zealand carbon credits	17,288	-	-	17,288
	17,288	145	-	17,433
Financial liabilities				
Derivative financial liabilities	-	1,471	-	1,471
	-	1,471	-	1,471

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

15. OTHER LIABILITIES

	As at 30 June 2016 $'000	As at 30 June 2015 $'000
(i) Current Liabilities		
Other current liabilities	293	278
(ii) Non-Current Liabilities		
Other non-current liabilities – Ferny Hill land liabilities	320	320

16. EMPLOYEE PROVISIONS

Current liabilities		
Long services leave	35	38
Annual leave and days in lieu	85	87
	120	125
Long service leave		
Opening balance	38	34
Annual leave and days in lieu	(3)	4
Closing balance	35	38
Annual leave and days in lieu		
Opening balance	87	76
Annual leave and days in lieu	(2)	11
Closing balance	85	87

17. TERM BORROWINGS (secured)

Dunedin City Treasury loan facility	12,000	13,430
Forestry loans	6,518	7,774
	18,518	21,204

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 2016 was $431 (2015 $510).

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

The repayment period on the term borrowings is as follows:

	As at 30 June 2016 $'000	As at 30 June 2015 $'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	2,610	1,686
Repayable between four to five years	-	1,030
Repayable later than five years	10,850	13,430
	18,518	21,204

The weighted average interest rate for the Dunedin City Treasury Limited loan facility, ranged between 6.083 and 7.53% (2015 4.75 – 7.53%).

The weighted average interest rates for the forestry loans is 6.09%, (2015 6.09%).

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

Multi-option note facility	12,000	13,430
Forestry loans	6,315	7,514

18. DEFERRED TAX LIABILITIES AND ASSETS

	2016 $'000 Opening Balance Sheet	2016 $'000 Charged To Equity	2016 $'000 Charged to Income	2016 $'000 Closing Balance Sheet Assets	2016 $'000 Liabilities	2016 $'000 Net
Property, plant and equipment	(77)	-	31	(46)	-	(46)
Employee provisions	(57)	-	3	(54)	-	(54)
Forest	19,033	-	2,667	-	21,700	21,700
Capitalised forestry costs	9,730	-	131	-	9,861	9,861
Revaluations of foreign exchange contracts	(656)	552	-	(104)	-	(104)
Revaluations of interest rate swaps	(266)	-	-	(266)	-	(266)
Revaluation of carbon credits	1,002	2,362	409	-	3,773	3,773
Other	7	-	-	-	7	7
Balance at the end of the year	28,716	2,914	3,241	(470)	35,341	34,871

	2015 $'000	2015 $'000	2015 $'000	2015 $'000	2015 $'000	2015 $'000
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)
Revaluations of carbon credtis	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

19. CAPITAL EXPENDITURE COMMITMENTS

	As at 30 June 2016 $'000	As at 30 June 2015 $'000
There are no capital commitments as at 30 June 2016 (2015 $nil)	-	-

20. CONTINGENT LIABILITIES

There are no contingent liabilities as at 30 June 2016 (2015 $nil)

21. LEASE COMMITMENTS

(i) Minimum operating lease commitments		
Payable within one year	72	80
Payable between one to five years	36	108
Payable later than five years	-	-
	108	188
(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	302	474
Short term deposits	-	-
	302	474

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	4,162	3,994
Due from related Parties - Otago Chipmill Limited	-	1
	4,162	3,995

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

24. OTHER CURRENT ASSETS

	As at 30 June 2016 $'000	As at 30 June 2015 $'000
Goods and services tax	253	262
	253	262

25. INVENTORIES

Raw materials and stores	193	379
Finished goods	-	38
	193	417

26. INVESTMENTS

Non-Current Investments		
Shares and units in other companies and funds	1	1
Shares and advance in Otago Chipmill Ltd	-	-
	1	1
Otago Chipmill Balance Sheet		
Total assets	105	54
Total liabilities	4	-
Net assets	101	54

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	73	4
Profit before income tax	47	(11)
Income tax	-	-
Profit after income tax	47	(11)

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	47	84
Plus purchases	11	7
Less amortisation expenses	(26)	(44)
	32	47

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

28. FORESTRY ASSETS

		As at 30 June 2016 $'000	As at 30 June 2015 $'000
Balance at the beginning of the year		113,629	111,093
Add	Costs capitalised in establishing forests during the year	1,947	2,218
	Increase in forest from acquisition	237	-
	Forest revaluation	9,524	2,515
Less	Cost of trees harvested	(1,535)	(2,197)
		123,802	113,629
Gains/(losses) arising from changes in fair value less point of sale costs;			
	attributable to physical changes	841	3,194
	attributable to price changes	9,332	(658)
		10,173	2,536

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 $25,985,800 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 6.5%.

The forestry valuation is subject to a number of assumptions. The ones with the most significant volatility or impact on the valuation are the discount rate applied and log prices adopted. The discount rate adopted was 6.5%; a +/- 50 basis point movement in the discount rate would change the valuation by +$5.95 mil / -$5.45 mil. A 10% increase or decrease in assumed log prices would change the valuation by +$11.06 mil / - $11.05 mil; (note that these sensitivities are shown are independent and different outcome would result from combined changes in discount and log prices).

At 30 June 2016 the company owned stands of trees on 16,469 hectares of a total land holding of 20,453 hectares. During the year the company harvested approx. 306,452 m^3 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.

29. PROPERTY, PLANT AND EQUIPMENT

2016	Land Other Valuation $'000	Forest Land Valuation $'000	Building Cost $'000	Roads Bridges Cost $'000	Plant Equipment Cost $'000	Sub-Total $'000
Cost or Valuation						
Balance at beginning of year	320	25,574	1,913	6,712	7,440	41,959
Increase through acquisition	-	-	-	-	-	-
Purchases	-	801	1	471	24	1,297
Disposals	-	-	-	-	(4)	(4)
Transfer to property intended for sale	(15)	-	-	-	(15)	(30)
Reclassified as intangibles	-	-	-	-	-	-
Balance at end of year	305	26,375	1,914	7,183	7,445	43,222
Accumulated depreciation/impairment						
Balance at beginning of year	30	-	1,508	3,730	6,414	11,682
Depreciation	-	-	16	174	90	280
Impairment	-	-	-	-	-	-
Disposals	-	-	-	-	(4)	(4)
Transfer to property intended for sale	-	-	--	-	(14)	(14)
	30	-	1,524	3,904	6,486	11,944
Balance at end of year	275	26,375	390	3,279	959	31,278
Comprising – Cost	-	801	390	3,279	959	5,429
Valuation	275	25,574	-	-	-	25,849

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 2016 was nil (2015 $nil). All other asset classes are shown at cost.

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

2016 Cont'd/….	Sub-Total $'000	Motor Vehicles Cost $'000	Office Equipment Cost $'000	Total $'000
Cost or Valuation				
Balance at beginning of year	41,959	838	302	43,099
Increase through acquisition	-	-	-	-
Purchases/ revaluation	1,297	104	5	1,406
Disposals	(4)	(180)	-	(184)
Transfer to property held for sale	(30)	-	-	(30)
Reclassified as intangibles	-	-	-	-
Balance at end of year	43,222	762	307	44,291
Accumulated depreciation				
Balance at beginning of year	11,682	589	262	12,533
Reclassified as intangibles	-	-	-	-
Depreciation	280	89	15	384
Impairment	-	-	-	-
Disposals	(4)	(164)	-	(168)
Transfer to property held for sale	(14)	-	-	(14)
	11,944	514	277	12,735
Balance at end of year	31,278	248	30	31,556
Comprising – Cost	5,429	248	30	5,707
Valuation	25,849	-	-	25,849

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

2015	Land Other Valuation $'000	Forest Land Valuation $'000	Buildings Cost $'000	Roads Bridges Cost $'000	Plant Equipment Cost $'000	Sub-Total $'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						
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

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

2015 Cont'd/….	Sub-Total $'000	Motor Vehicles Cost $'000	Office Equipment Cost $'000	Total $'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

30. PROPERTY CLASSIFIED AS HELD FOR SALE

	30 June 2016 $'000	30 June 2015 $'000
Freehold land held for sale	15	-
Assets relating to weighbridge site	1	-
	16	-

The company intends to dispose of a parcel of freehold land and associated assets it no longer utilises in the next 12 months. A search is underway for a buyer. No impairment loss was recognised on reclassification of the assets.

31. 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 1,632,903 Post-89 derived NZU's, being the carbon sequested by these forests during the 2008 to 2016 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.

As at 30th June 2016, 965,903 units were unsold (2015 751,115). 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 2016 $'000	**As at 30 June 2015 $'000**
New Zealand carbon credits	17,288	4,994

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.

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

	As at 30 June 2016 $'000	As at 30 June 2015 $'000
Net gain/(loss) for the year	16,021	7,042
Items Not Involving Cash Flows		
Depreciation and loss on sale	410	385
Depletion of forest	1,535	2,197
Deferred tax	3,241	1,031
Depreciation recovered/capital gains	(22)	(55)
Forestry revaluation	(9,524)	(2,515)
Impairment of fixed assets	-	(80)
Allocation of carbon credits/revaluation carbon credits	(1,462)	-
Other non-cash items		
Impact of Changes in Working Capital Items		
(Increase)/Decrease in accounts receivable	(166)	(507)
(Increase)/Decrease in inventories	224	170
(Increase)/Decrease in prepayments	(92)	220
(Increase)/Decrease in tax refund due	1,128	693
Increase/(Decrease) in accounts payable	485	280
Increase/(Decrease) in other current liabilities	9	(18)
(Increase)/Decrease in current assets	-	(109)
Net cash inflows/(outflows) from operating activities	11,787	8,734

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

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

	As at 30 June 2016 $'000	As at 30 June 2015 $'000
Purchases of goods and services from the Dunedin City Council:		
Rates and property rentals	14	13
Other	3	3
	17	16
Dunedin City Holdings Limited		
Managing Services	50	50
Dividends (including provision of $1m)	6,500	5,000
Delta Utility Services Limited		
Roading & Earthmoving Services	230	388
Payable to Dunedin City Council as at balance date	2	-
Payable to Delta Utility Services Limited	29	48
Payable to Dunedin City Holdings Limited	-	-
Subvention payments:		
Dunedin Venues Limited	-	-
Dunedin Venues Management Limited	-	-
		-

The subvention payments were made for the tax effect of the losses transferred

	2016	2015
Loan from Dunedin City Treasury Limited as at balance date	12,000	13,430
Loans received during the year	3,790	6,960
Loans paid during the year	5,220	7,380
Interest due to Dunedin City Treasury Limited as at balance date	94	108
Interest paid during the year	885	879
Interest rebate received	11	80
Net interest	874	799
Other payments including facility fees	-	215

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 2016 $'000	Year ended 30 June 2015 $'000
Sales of goods and services to associate companies:		
Management fees received from Otago Chipmill Limited	-	-
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	2	1
Mr M C Horne had related party interests with the following organisations during the year.		
Director, Palmers Mechanical Limited.	5	76
Director, Deloitte		
Financial Services/Directorship	126	131

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 2016 $'000	Year ended 30 June 2015 $'000
At year end the following amounts were owed to and from the Companies in which Directors have an interest:		
Payable to:		
Palmers Mechanical	-	
Deloitte	9	

<u>Compensation of key management personnel</u>

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

	2016	2015
Salaries and Short-term benefits	919	892
Post-Employment benefit	-	-
	919	892

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.

STATEMENT OF SERVICE PERFORMANCE
For the Year Ended 30 June 2016

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

	Performance Targets	Achievement
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 10th June 2016 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. One new property purchase occurred during the year and 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 a domestic log sales strategy 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 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 13.8% 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 monitored Carbon sales price during the period and considered its Carbon Sales policy at board level. No Carbon Sales occurred during the period.
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 95.96% 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 Company forest estate was 306,452 m^3. Excluding billet wood which is not part of sustainable cut calculation the Harvest is 287,464m^3. This is 104.5% of sustainable yield of 275,000 m^3.
5b.	An annual forest health report will have been completed by 30th June 2015.	An annual forest health report was completed in the 2015.

	Performance Targets	Achievement
5c	The annual fire plan will be updated and operational.	Fire plan was completed in September 2015 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 the Company reviewed and approved its pruning strategy during the year.
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.	Increased forest plantings of clonal seedlings have been established across a range of sites. Forest management plans have been modified to incorporate research results.
8a.	Forest Stewardship Council Certification will be maintained.	Forest Stewardship Council Certification was maintained following audit in the last quarter of 2015.
8b.	Lost time accident rates for staff and contractors will be reduced to a maximum 25 lost time injuries per 1,000,000 hours.	Lost time accident rate for staff and contractors was 18.2 lost time injuries per 1,000,000 hours. (12.4 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 and includes water, soil disturbance and reserve biodiversity monitoring.
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 review formed part of the 10th June 2016 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 contract crew has training plans and training records for all employees audited by the Company.
10c.	Each harvesting crew will have a trained log maker. There will be "nil" instances of non-compliance	Each harvest crew has multiple trained log makers.

10d.	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. Recreation use is monitored through permit issuance.

	Financial Targets (Statement of Intent)		Achievement	
12a	Profit before income tax	8,300	Profit before income tax	22,273
12b	Profit after income tax	5,972	Profit after income tax	16,021
12c	Shareholders equity	97,767	Shareholders equity	116,059
12d	Normal dividend	3,000	Normal dividend	4,500
12e	Special dividend	1,500	Special dividend	2,000
12f	Operating cashflow	6,163	Operating cashflow	11,787
12g	Capex	932	Capex	1,406
12h	Term debt	22,570	Term debt	18,518

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

Independent Auditor's Report

To the readers of City Forests Limited's financial statements and performance information for the year ended 30 June 2016

The Auditor-General is the auditor of City Forests Limited (the company). The Auditor-General has appointed me, Scott Tobin, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements and performance information of the company on her behalf.

Opinion on the financial statements and the performance information

We have audited:

- the financial statements of the company on pages 18 to 58, that comprise the balance sheet as at 30 June 2016, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information; and
- the performance information of the company on pages 59 to 61.

In our opinion:

- the financial statements of the company:
    - present fairly, in all material respects:
        - its financial position as at 30 June 2016; and
        - its financial performance and cash flows for the year then ended; and
    - comply with generally accepted accounting practice in New Zealand in accordance with New Zealand equivalents to International Financial Reporting Standards.
- the performance information of the company presents fairly, in all material respects, the company's actual performance compared against the performance targets and other measures by which performance was judged in relation to the company's objectives for the year ended 30 June 2016.

Our audit was completed on 30 August 2016. This is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and our responsibilities, and explain our independence.

Basis of opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and carry out our audit to obtain reasonable assurance about whether the financial statements and the performance information are free from material misstatement.

Material misstatements are differences or omissions of amounts and disclosures that, in our judgement, are likely to influence readers' overall understanding of the financial statements and the performance information. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements and in the performance information. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements and the performance information, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation of the company's financial statements and performance information in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.

An audit also involves evaluating:

- the appropriateness of accounting policies used and whether they have been consistently applied;
- the reasonableness of the significant accounting estimates and judgements made by the Board of Directors;
- the appropriateness of the reported performance information within the company's framework for reporting performance;
- the adequacy of the disclosures in the financial statements and in the performance information; and
- the overall presentation of the financial statements and the performance information.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements and the performance information. Also, we did not evaluate the security and controls over the electronic publication of the financial statements and the performance information.

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

Responsibilities of the Board of Directors

The Board of Directors is responsible for the preparation and fair presentation of financial statements for the company that comply with generally accepted accounting practice in New Zealand. The Board of Directors is also responsible for preparation of the performance information for the company.

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

The Board of Directors is responsible for such internal control as it determines is necessary to enable the preparation of financial statements and performance information that are free from material misstatement, whether due to fraud or error. The Board of Directors is also responsible for the publication of the financial statements and the performance information, whether in printed or electronic form.

Responsibilities of the Auditor

We are responsible for expressing an independent opinion on the financial statements and the performance information and reporting that opinion to you based on our audit. Our responsibility arises from the Public Audit Act 2001.

Independence

When carrying out the audit, we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the External Reporting Board.

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

Scott Tobin
Audit New Zealand
On behalf of the Auditor-General
Christchurch, New Zealand


The most practical and
effective method to
fight climate change
is to plant trees