City Forests

ANNUAL REPORT 2019

City Forests

QUICK FACTS

Community owned, city asset

City Forests is owned by the City of Dunedin, Ōtepoti and includes more than 18,100ha of productive forests, with around 8 million trees. City Forests include over 40km of community access, walking and mountain bike tracks, as well as several significant heritage and archaeological sites. City Forests contributes to the economy of the city through the Dunedin City Council holding company, Dunedin City Holdings Ltd.

Profitable, long-term business

Established in 1906, City Forests has contributed to the Dunedin economy for over 110 years and has returned $65M to the city in dividends in the past 20 years.

The forestry and wood industry is New Zealand's third largest industry, contributing significantly to our economy and making up over 12% of New Zealand's export earnings.

Sustainable forests, supporting the environment

Forestry and the production of wood helps mitigate global climate change. There is approximately 1.8M tonnes of carbon stored in City Forests. City Forests has designated over 2,000ha of land as permanent reserve sites, these sites include native forest plantations, wetlands and significant water catchments for rare native fish species. City Forests are home to a wide range of native bird life and support research projects on the New Zealand Falcon (Kārearea) and Bush Robin (Kakaruai).

0

Serious Harm Incidents

79

Staff and contractors **employed**

12,339m³

OF **Bioenergy** supplied

(50,000T OF BIOENERGY SUPPLIED SINCE INCEPTION)

$60K

Ecological sponsorships including:

- Yellow Eyed Penguin Trust
- Otago Peninsula Biodiversity Group
- Otago Wildlife Hospital Trust
- Orokonui Ecosanctuary
- Predator Free Dunedin

1.8M TONNES of **carbon stored** in **City Forests**

22,500ha OF land UNDER management

$8M in **Dividends** for the year ended 30 June 2019

42.5km of **community access walking** and **mountain bike tracks**

775,000

NEW TREES PLANTED 2018/2019

CONTENTS

www.cityforests.co.nz

COMPANY PARTICULARS

AS AT 30 JUNE 2019

DIRECTORS

J F Gallaher ▪ A.F.A., F.C.A., B Com., CF.Inst.D.
Appointed 01 November 2012,
Appointed Chairman 1 October 2013

T J Mepham ▪ B.Com., C.A., C.F.Inst.D.
Appointed 01 December 2013

M C Horne ▪ L.L.B., F.C.A. (P.P.), B.Com., CM.Inst.D.
Appointed 09 December 2013

C Hopkins ▪ B.Com., C.A., C.F.Inst.D.
Appointed 01 January 2018, Retired 30 June 2019

S Chadwick ▪ (Intern) L.L.B., B.A., Dip.Grad.
Appointed 01 January 2018, Retired 30 June 2019

CHIEF EXECUTIVE OFFICER

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

REGISTERED OFFICE

123 Crawford Street
Dunedin 9016, New Zealand

BANKERS

Westpac Banking Corporation

SOLICITORS

Gallaway Cook Allan

FINANCIAL ADVISERS

Deloitte Limited

AUDITOR

Audit New Zealand on behalf of the
Controller and Auditor General

SHAREHOLDER

Dunedin City Holdings Limited

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2019

The Directors' of City Forests Limited are pleased to present their report on the activities of the Company for the year ended 30 June 2019.

PRINCIPAL ACTIVITIES OF THE COMPANY

This report covers the financial year 1 July 2018 to 30 June 2019.

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

Results for the Year Ended 30 June 2019	*$,000*
Operating Surplus before Income Tax and After Impairment	34,768
Less Income Tax	9,536
Net Surplus for the Year	**25,232**

STATE OF AFFAIRS

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

DIVIDENDS

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

- an interim un-imputed dividend of $2,000,000 in December 2018
- a final un-imputed dividend of $4,500,000 in June 2019
- a special un-imputed dividend of $1,500,000 in June 2019

DONATIONS

There have been donations made of $10,100 during the year.

RESERVES

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

	$'000
To Forestry Reserve	9,513
To Retained Earnings	12,482
To Hedging Reserve	400
To Land Revaluation Reserve	4,735
To Carbon Credit Reserve	(2,714)

REVIEW OF OPERATIONS

This review of operations and the accompanying financial reports cover the 1 July 2018 to 30 June 2019 financial year.

Directors are pleased to report another strong financial performance for City Forests Limited during the year recording a profit after tax of $25.2m and dividends paid of $8.0m. A summary of markets and operational factors contributing to the result is detailed below.

LOG EXPORT MARKETS

The Company continues to supply both the South Korean and Chinese log markets with regular shipments. This financial year was largely a continuation of the very favourable and relatively stable market conditions experienced in Asian log markets which began in late 2015. Log prices continued to rise steadily throughout 11 months of the year in the "price setting" China market and these were mirrored in South Korea. The last month of the year saw a downward but manageable correction in export log prices to balance overall supply and demand in Asian markets.

The cost per cubic metre of international shipping to

Asian markets traded within a range of USD $23 to USD $37 throughout the year.

The value of the New Zealand Dollar compared to the United States Dollar was relatively stable during the year across the 0.64 – 0.69 range.

Chart: Shipping Costs

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

HEALTH AND SAFETY

The Board and Management of the Company are fully 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 0.0 lost time injuries per 1 million hours worked (31.7 previous year). No Company staff or contract forest operations employees had any lost time incidents working on the Company estate during the year.

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

FOREIGN EXCHANGING HEDGING

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

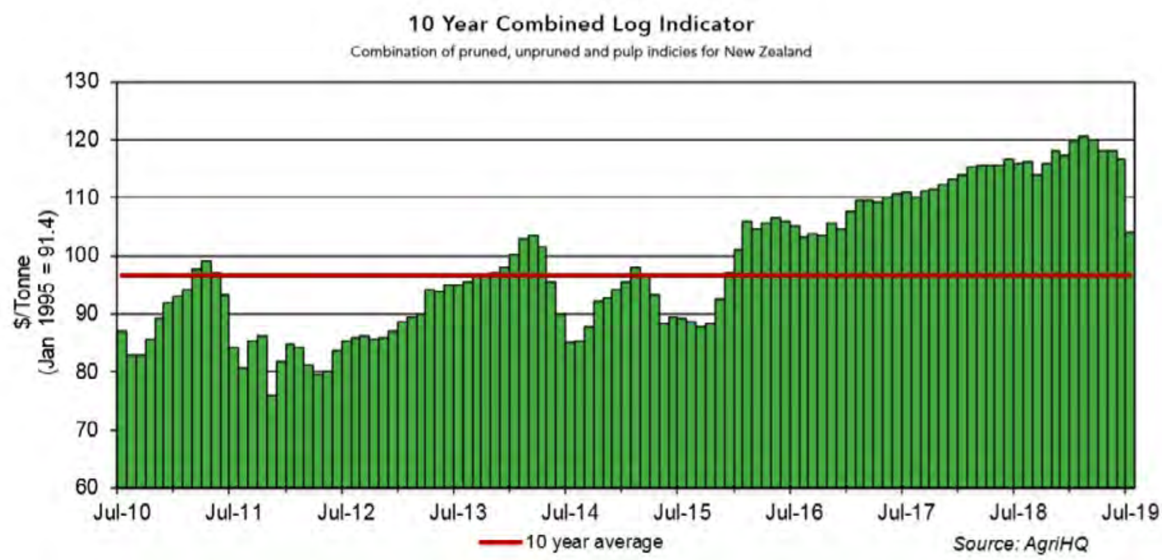
Foreign exchange risk is managed by a United States Dollar hedging portfolio administered on City Forests Limited behalf by Dunedin City Treasury Limited. The transactions and hedging portfolio are managed in accordance with the Company's Foreign Exchange Policy that is endorsed by the shareholder. The Company was compliant with its foreign exchange policy throughout the year.

As described above, the year has seen modest variation in the value of the New Zealand Dollar within a range that has been favourable for exporters, a factor contributing to strong returns from the export log market.

DOMESTIC LOG MARKET

The Company continues to supply domestic mills in Otago and Southland. Overall 28.9% (38.1% previous year) of log production from the Company's forests was supplied to Domestic customers.

Chart: New Zealand Industry Average Log Prices



Domestic supply is principally limited by production availability of the required domestic log grades and domestic processing capacity. Throughout the year Southland based domestic customers elected to reduce supply in order to minimise log transport costs as the Company's harvest activity moved to the northern part of the forest estate which explains the drop in domestic supply compared to last year.

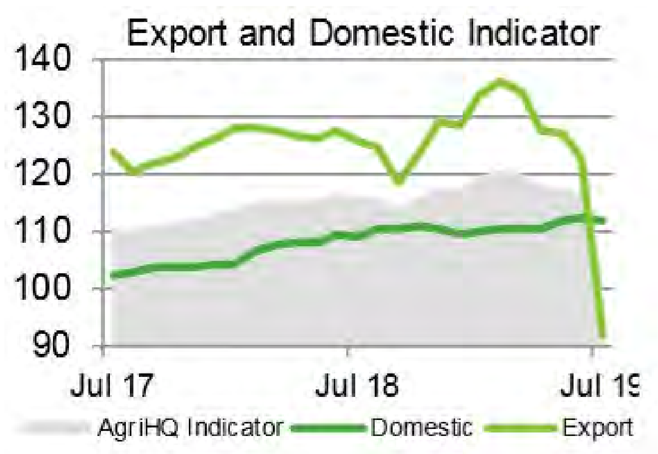


Chart: New Zealand Industry Average Export and Domestic Prices

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

BIO-ENERGY

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

FOREST PRODUCTION

The Company had a busy production year making the most of favourable log markets. The overall cut from the forest estate was 336,374m³. This represents a 1.6% variance compared to its sustainable cut level, which has increased due to forest acquisition. The Company has focused its harvest activity in generally higher productivity stands and this has led to an increase in the supply of higher quality logs. Considering the favourable log pricing experienced during the period the Company has made good returns from the high-quality forest being harvested.

Part of the 2018/2019 harvest program occurred in the Scout Association joint venture area. This is part of a series of harvest periods that will occur in joint venture forest areas. The favourable log pricing experienced during the period resulted in healthy returns to both parties.

The Company handled a total volume of 368,341m³ for the year. 31,967m³ of outside wood was traded during the year principally to supplement log export operations.

ROADING AND INFRASTRUCTURE

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

FOREST ASSET OPERATIONS

The Company continues to re-establish all its production areas as soon as reasonably practical following harvest. The Company is actively working to plant all available productive areas in the best available tree stock and to apply optimum tending regimes. This involves selecting tree stocks with the best genetic potential and applying best practice silviculture to optimise the potential of each forest site.

New generation tree genetics offer significant gains in tree growth and wood properties compared to the tree stocks currently being harvested. During the year an independent review of tree genetic selection has been undertaken to assist the Company to maximise productivity.

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

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

OTAGO RALLY 2019

IMAGE CREDIT: DUNEDIN NZ

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® C008934) certification since 2000.

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

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

NEW LAND ACQUISITION

During the year the Company purchased 1016.7ha of new land including approximately 38ha of trees. The land is situated close to the Company's existing Hillend and Ferny Hill forests. These blocks are principally farmland and will be progressively planted during the 2019 and 2020 planting seasons providing an increase in the Company's sustainable harvest level and carbon sequestration. The Company continues with its strategy of estate expansion where quality forest or land can be acquired economically in proximity to the existing estate.

CARBON

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

The Company has filed a deforestation return and an emissions' return for the 2018 emissions year. As at 30 June 2019 the Company has received 4,972 NZU's and is due to receive a further allocation of 178,202 NZU's.

The Company has sold 300,000 NZU's during the year. The market price of an NZU has been trading about the $25 / NZU price cap during most of the year and declined approximately 10% over the last quarter of the year.

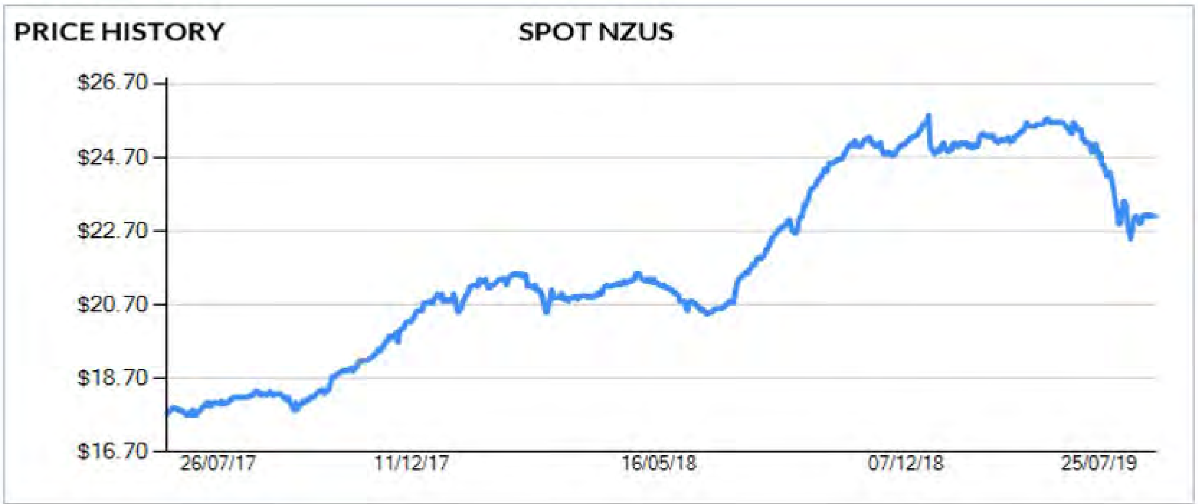


Chart: NZU Price. Source OM Financial

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

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

FOREST VALUATION

Company forest crops are valued annually on 30 June and increased in value by $13.838m from the previous year. The main drivers of the valuation increase were a reduction in the discount rate applied to 6.0% (previously 6.5%) and increases in 5-year average log prices. A revision of forecast forest yields and production costs was also carried out and incorporated into the forest crop valuation.

The Company maintains a policy of a conservative but fair valuation of its forest crop assets. Although this year's value increase is significant it reflects a standard New Zealand Institute of Forestry forest valuation approach that is independently audited by a third-party, Woodlands Pacific.

Company land is valued using a market-based valuation approach undertaken by independent registered valuers. This is consistent with the previous year. For both forest crop and land valuations key input variables impacting the valuation are benchmarked against industry averages to ensure they meet the conservative but fair value test.

During the year the Company has adopted "fair value" *for forest depletions* to recognise removals due to harvest as per NZ IAS 41 Agriculture. The allocation of the fair value of the forest crop harvested during the year is based on the opening fair value (being a subset of the 30 June 2018 forest crop valuation) which is deducted as an expense to recognise harvest removals. In previous years the actual cost of forest has been used to recognise the cost of harvest removals.

The net effect of this change is a significant increase in the non-cash costs due to harvest showing a lower operating margin than the previous method. There is no net change to profit or total equity due to this change as the total revenue incorporates the fair value gain adjustment. The 2018 comparatives have been restated to incorporate this change. See note 2.

DIVIDENDS

The Company has paid a dividend to the shareholder of $8.0m during the year. The dividend was increased from the budgeted dividend of $6.5m by an additional special dividend of $1.5m as a result of the favourable trading conditions experienced during the year.

SOCIAL AND ENVIRONMENTAL CONTRIBUTIONS

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

The Company's financial contribution to the community has continued. A number of donations totalling $10,100 and sponsorships totalling $70,718 have been made to various organisations, community groups and charities. The most significant contributions are: Orokanui Eco Sanctuary $30,000, Landscapes Connection Trust (Predator Free Dunedin) $15,000, Yellow Eyed Penguin Trust $5,000, Otago Peninsular Biodiversity Group $5,000, Otago Wildlife Hospital Trust $5,000.

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

FUTURE STRATEGY

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

Performance improvement in tree genetics', forest silviculture and supply chain continue to be a focus of management to ensure returns from the forest estate are maximised in the long term.

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

In summary, the 2018 – 2019 year has been very favourable in terms profitability and the Company has paid a significant dividend as well as reduced net debt and acquired new forest area.

The Board'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 continues to be built for the shareholder.

OUTLOOK

The outlook for the 2020 financial year is to deliver a strong result although profitability may be modestly reduced compared with that achieved over recent financial years. The underlying operational performance is predicted to be similar, however profitability will be dependent on how log markets and the wider international economy track throughout the year.

The Company's financial performance is driven by export and domestic log sales and strong customer relationships. A dividend of $6.5 million is forecast for the 2020 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 renewable wood products domestically and from China and other Asian economies experiencing good economic growth. As experienced in the past it is expected that economic volatility will cause these returns to remain cyclic in nature throughout each financial year.

Recent forest acquisitions have increased the Company's annual sustainable cut level to approximately 330,000m³ per annum, a 10% increase. The Company is well placed with a mature, harvest ready forest and proven export capability to make the most of market opportunities.

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

CHANGE OF DIRECTORS

At 30 June 2019 Mr Chris Hopkins retired from the Board. A replacement process is underway. The Company thanks Mr Hopkins for his significant contribution to the governance and strategic direction of City Forests Limited.

Ms Shelley Chadwick has been attending the Company's Board meetings as a non-voting Intern Director during the financial year. Her term ended 30 June 2019.

FINANCIAL STATEMENTS

The audited financial statements for the year ended 30 June 2019 are attached to this report.

DIRECTORS' INTERESTS IN CONTRACTS

Refer to Directors' Declarations of Interest section on page 14 and the Related Parties Transactions note 15.

AUDITORS

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

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.

Employee Remuneration and Other Benefits	Number of Employees
$100,000 - $110,000	3
$160,000 - $170,000	1
$190,000 - $200,000	1
$200,000 - $210,000	1
$310,000 - $320,000	1

INFORMATION ON THE DIRECTORS OF CITY FORESTS LIMITED

Director and responsibilities	Renumeration $,000 2019	2018
John F Gallaher Non-Executive Director *(Appointed 1st November 2012)* Chairman Remunerations Sub-committee *(Appointed 1st October 2013)*	**56**	**55**
Tim J Mepham Non-Executive Director *(Appointed 1st December 2013)*	**32**	**30**
Michael C Horne Non-Executive Director *(Appointed 9th December 2013)*	**32**	**30**
Christopher C Hopkins Non-Executive Director *(Appointed 1st January 2018)* *(Retired 30th June 2019)*	**32**	**15**

DIRECTORS' INSURANCE

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

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

DATE: 17/9/2019

T J Mepham
Director

DATE: 17/9/2019

INFORMATION ON THE DIRECTORS OF CITY FORESTS

DIRECTOR, QUALIFICATIONS AND DECLARATIONS OF INTEREST

John Gallaher ▪ **A.F.A., F.C.A., B Com., C.F.Inst.D**
Chairman appointed October 2013
Date appointed 1st November 2012

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

Mr Tim J Mepham ▪ **C.A., B Com., C.F.Inst.D.**
Non-Executive Director
Date appointed 9 December 2013

Chairman, Presbyterian Support Otago
Treasurer, Yellow Eyed Penguin Trust
Principal, Rautaki Advisory
Director, PSO Retirement Villages Limited
Director, Honeystone Corporate Trustee Limited

Mr Michael C Horne
▪ **L.L.B., F.C.A. (P.P.), B Com., CM.Inst.D.**
Non-Executive Director
Date appointed 9 December 2013

Director, Deloitte Limited
Director, Palmer & Son Limited
Director, Palmer MH Limited
Director, Palmer Mechanical Limited
Director, Palmer Resources Limited
Director, Viblock Limited
Director, Foodco New Zealand Limited
Director, Greenbriar Limited
Director, Prospectus Nominees Services Limited
Trustee, Ashburn Hall Charitable Trust

Mr Christopher C Hopkins
▪ **B.Com., C.A., C.F.Inst.D.**
Non-Executive Director
Dated appointed 1 January 2018
Retired 30 June 2019

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

Ms Shelley Chadwick **L.L.B., B.A., Dip.Grad.**
Intern Director
Dated appointed 1 January 2018
Retired 30 June 2019

Chair, Rural Business Network Otago
Committee Member, Tomahawk Smaills Beachcare Trust

TREND STATEMENT

FOR THE YEAR ENDING 30 JUNE 2019

(All $,000 unless stated otherwise) **FINANCIAL PERFORMANCE**	2019	2018 *(Restated)*[1]	2017	2016	2015
Domestic revenue	11,831	13,043	12,756	12,335	9,412
Export revenue	46,785	39,421	26,465	33,861	26,751
Other revenue	432	1,513	869	656	2,228
Total revenue	**59,048**	**53,977**	**40,090**	**46,852**	**38,391**
Percentage increase	9.4%	34.6%	(14.4%)	22.0%	3.2%
Inventory movement	86	237	869	(224)	(170)
Total expenses	**48,484**	**45,770**	**28,857**	**35,341**	**31,072**
Percentage increase	5.9%	37.5%	(18.3%)	13.7%	(10.1%)
Operating surplus	**10,650**	**8,444**	**12,102**	**11,287**	**7,149**
New Zealand carbon credits	4,247	6,467	6,182	1,462	-
Gain in fair value of forestry asset	20,333	19,672	9,629	9,524	2,515
Write down value of land	(462)	(1,528)	(389)	-	-
Impairment charges	-	-	-	-	(80)
Surplus after non-operating items and before taxation	**34,768**	**33,055**	**27,524**	**22,273**	**9,744**
Income tax	**9,536**	**9,142**	**7,420**	**6,252**	**2,702**
TOTAL SURPLUS AFTER TAXATION	**25,232**	**23,913**	**20,104**	**16,021**	**7,042**

SHAREHOLDERS' FUNDS

	2019	2018	2017	2016	2015
Shareholders' funds	184,759	160,343	139,058	120,901	96,649
Operating cash flow	13,578	15,353	12,748	11,787	8,734
Dividends paid - normal	6,500	5,000	4,500	4,500	4,500
Dividends paid - special	1,500	3,000	1,500	2,000	500
Value of forest	164,010	150,172	136,333	123,802	113,629
Surplus after tax to shareholders funds	13.66%	14.91%	14.45%	13.25%	7.29%
Proprietorship ratio	71.60%	70.03%	67.36%	66.11%	62.53%
Net forest revaluation	14,640	13,585	9,629	9,524	1,811
Net Land Revaluation	4,735	2,277	3,584	4,842	(22)

FOREST STATISTICS *(Whole numbers)*

	2019	2018	2017	2016	2015
Forest harvested (m^3)	336,374	303,922	277,201	306,452	299,377
Volume traded (m^3)	31,967	44,014	64,455	71,364	18,530
Forest planted (ha)	765	739	579	487	605
Total forest (ha)	18,143	17,285	16,795	16,469	16,315
Forest purchased (ha)	38	244	347	156	-

[1] **Refer Note 2**

STATEMENT OF **COMPREHENSIVE INCOME**

FOR THE YEAR ENDING 30 JUNE 2019

	NOTE	2019 $,000	2018 $,000 (Restated)[1]
Revenue	3	63,240	59,864
Financial income		55	580
Gain/(loss) in fair value of forestry asset	5	20,333	19,672
TOTAL REVENUE		**83,628**	**80,116**
INVENTORY MOVEMENT		**86**	**237**
LESS EXPENSES:			
Contractors		18,623	16,163
Depreciation and amortisation expense		380	325
Directors fees		152	146
Employee expenses		1,536	1,465
Financial expenses		1,340	655
Other expenses	4	26,915	28,544
Total expenses		**48,946**	**47,298**
Profit before tax		**34,768**	**33,055**
Income tax expense	13	9,536	9,142
NET PROFIT AFTER TAX		**25,232**	**23,913**
OTHER COMPREHENSIVE INCOME:			
Gains/(loss) on cash flow hedges taken to equity		555	(1,081)
Tax effect of cash flow hedges taken to equity		(155)	303
Increase in land revaluation		4,734	2,277
Carbon credits revaluation above initial recognition taken to equity		2,846	5,158
Tax effect of carbon taken to equity		(796)	(1,285)
OTHER COMPREHENSIVE INCOME FOR THE YEAR		**7,184**	**5,372**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**32,416**	**29,285**

[1] **Refer Note 2**

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

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDING 30 JUNE 2019

	NOTE	2019 $,000	2018 $,000
Equity at beginning of year		**160,343**	**139,058**
Total comprehensive income for the year		32,416	29,285
Distribution to owners Dividends		(8,000)	(8,000)
EQUITY AT END OF YEAR		**184,759**	**160,343**

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

STATEMENT OF **FINANCIAL POSITION**

FOR THE YEAR ENDING 30 JUNE 2019

EQUITY	NOTE	2019 $,000	2018 $,000 (Restated)[1]
Share Capital	8	25,691	25,691
Forestry reserve	9	82,027	72,514
Land revaluation reserve	9	30,285	25,550
Hedging reserve	9	(394)	(794)
Carbon credit reserve	9	5,697	8,411
Retained earnings	10	41,453	28,971
TOTAL EQUITY		**184,759**	**160,343**

LIABILITIES

CURRENT LIABILITIES			
Trade and other payables		3,099	2,360
Other current liabilities		274	253
Employee Provisions		148	134
Derivative financial instruments	11	369	645
Provision for taxation		5,496	3,436
Subvention payable		501	533
Total current liabilities		**9,887**	**7,361**
NON-CURRENT LIABILITIES			
Derivative financial instruments	11	264	457
Term borrowings	12	13,600	15,100
Other liabilities		320	320
Net deferred tax liability	14	49,198	45,370
Total non-current liabilities		**63,382**	**61,247**
TOTAL LIABILITIES		**73,269**	**68,608**
TOTAL EQUITY PLUS LIABILITIES		**258,028**	**228,951**

[1] **Refer Note 2**

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

ASSETS	NOTE	2019 $,000	2018 $,000 (Restated)[1]
CURRENT ASSETS			
Cash and cash equivalents		874	934
Trade and other receivables		4,838	2,677
Derivative financial instruments	11	32	-
Inventories – raw materials		1,685	1,299
Prepayments		126	140
GST refund		313	347
Deposit on property purchase		433	36
Total current assets		**8,301**	**5,433**
NON-CURRENT ASSETS			
Derivative financial instruments	11	53	-
Property, plant and equipment	7	58,759	46,306
Forestry assets	5	164,010	150,172
Investments		2	1
Intangibles – computer software		9	15
Intangibles – New Zealand carbon credits	6	26,894	27,024
Total non-current assets		**249,727**	**223,518**
TOTAL ASSETS		**258,028**	**228,951**

For and on behalf of the Board of Directors:

J F Gallaher
Chairman

DATE: 17/9/2019

T J Mepham
Director

DATE: 17/09/2019

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

STATEMENT OF **CASH FLOWS**

FOR THE YEAR ENDING 30 JUNE 2019

	NOTE	2019 $,000	2018 $,000
CASH FLOWS FROM **OPERATING ACTIVITIES**			
CASH WAS PROVIDED FROM			
Receipts from customers		57,350	52,910
Effect of exchange rate changes		-	559
Interest received		30	21
		57,380	**53,490**
CASH WAS DISBURSED TO			
Payments to suppliers and employees		37,292	33,866
Interest paid		578	711
Income tax/subvention		5,133	3,560
Effect of exchange rate changes		799	-
		43,802	**38,137**
NET CASH INFLOWS/(OUTFLOWS) FROM OPERATING ACTIVITIES	**16**	**13,578**	**15,353**

		2019 $,000	2018 $,000
CASH FLOWS FROM **INVESTING ACTIVITIES**			
CASH WAS PROVIDED FROM			
Carbon credits sold		7,215	8,010
Sale of property, plant and equipment		19	1,419
		7,234	**9,429**
CASH WAS DISBURSED TO			
Purchase of property, plant and equipment		9,007	6,302
Purchase of Forest Assets		2,365	4,673
		11,372	**10,975**
NET CASH INFLOWS/(OUTFLOWS) FROM INVESTING ACTIVITIES		**(4,138)**	**(1,546)**

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

CASH FLOWS FROM **FINANCING ACTIVITIES**

	2019 $,000	2018 $,000
CASH WAS PROVIDED FROM		
Proceeds from borrowings	7,300	8,800
	7,300	**8,800**
CASH WAS DISBURSED TO		
Repayment of borrowings	8,800	14,483
Dividends paid	8,000	8,000
	16,800	**22,483**
NET CASH INFLOWS/(OUTFLOWS) FROM FINANCING ACTIVITIES	**(9,500)**	**(13,683)**
Net Increase in Cash Held	**(60)**	**124**
Cash and short term deposits at the beginning of the year	934	810
CASH AND SHORT TERM DEPOSITS AT THE END OF THE YEAR	**874**	**934**

COMPOSITION OF CASH		
Cash and short term deposits	874	934

ACCOUNTING POLICY

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

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

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

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

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


-2M

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDING 30 JUNE 2019

1. REPORTING ENTITY

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

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

City Forests Limited is a profit orientated entity.

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

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

The financial statements were authorised for issue by the Directors on 17th September 2019

Basis of Accounting

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

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

Changes in Accounting Policies

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

Impact of Initial Application of NZ IFRS 15 Revenue from Contracts with Customers

In the current year, the Company has applied NZ IFRS 15 Revenue from Contracts with Customers effective from 1 July 2018. NZ IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. NZ IFRS 15 requires entities to exercise judgement, taking into consideration all the relevant facts and circumstances when applying each step of the model to contracts with customers.

In accordance with the transition provisions of NZ IFRS 15 adopting the full retrospective approach the Company has concluded there will be no changes in the treatment of income in the financial statements. The impact of restatement is limited to the accounting policies and disclosures in the financial statements, the timing of revenue recognition has not been impacted by the adoption of NZ IFRS 15.

The Company's accounting policies for its key revenue streams are included at Note 3.

In relation to the impairment of financial assets, NZ IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under NZ IAS 39. The expected credit loss model requires the Company to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

NZ IFRS 9 requires a simplified approach for measuring the loss allowance at an amount equal to lifetime expected credit loss (ECL) for trade and other receivables that do not contain a significant financing component. The Company has applied the simplified model.

No adjustment to the loss allowance was recognised on application of NZ IFRS 9.

Financial liabilities continue to be measured at amortised cost using the effective interest rate.

Change in Accounting Policy

In prior years City Forests Limited used 'cost' as a basis for allocating 'decreases due to harvest'. As at 30 June 2019 City Forests Limited has adopted 'fair value' as the basis for decreases due to harvest in line with NZ IAS 41 Agriculture. As a result, the Company has restated the fair value allocation of decreases due to harvest for the 2018 financial statements. The results of this is shown below in the revised statement of comprehensive income, forestry assets reconciliation (per note 5) and other expenses (note 4). There is no net change in the Balance Sheet due to this reinstatement. The change which the Company has made to the face of the financial statements, in our opinion provides more relevant information to the users of the financial statements. As the financial performance of the harvesting aspect of the operation can now be assessed separately from the performance of the growth aspect of the operation.

	2018 *Reported Position*	2018 *Fair Value Adjustment*	2018 *Restated Position*
Gain/(loss) in fair value of forestry asset	13,585	6,087	80,116
Other expenses	22,457	6,087	28,544
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**29,285**	**-**	**29,285**

FORESTRY ASSETS *(note 5)*

Balance at the beginning of the year	136,333	-	136,333
ADD			
Costs capitalised	2,353	-	2,353
Increase from acquisition	2,575	-	2,575
Forestry revaluation	13,585	6,087	19,672
LESS			
Cost of trees harvested	(4,674)	(6,087)	(10,761)
	150,172	**-**	**150,172**

OTHER EXPENSES *(note 4)*

Audit fees – for audit of financial statements	36	-	36
Donations	17	-	17
Loss on sale of property, plant and equipment	181	-	181
Rental expense on operation leases	71	-	71
Research expenditure	205	-	205
Cost of bush applied	4,674	6,087	10,761
Shipping costs	7,714	-	7,714
Write down of land value	1,528	-	1,528
Subvention	532	-	532
Other operating expenses	7,499	-	7,499
	22,457	**6,087**	**28,544**

Critical Accounting Estimates and Assumptions

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

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

Currencies

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

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

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

Good and Service Tax (GST)

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

Impairment of assets excluding goodwill

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

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

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

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

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

Inventories

Inventories reported in the balance sheet include:

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

Cash and cash equivalents

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

Classification as trade receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. Trade receivables are initially recognised at fair value and subsequently at amortised cost. The Company holds the trade receivable with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. Details about the Company's impairment policies and the calculation of the loss allowance are provided in Note 11.

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.

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.

Adoption of new revised standards and interpretations

There are no standards in issue but not yet effective which would materially impact the amounts recognised in the financial statements.

NZ IFRS 16 – Leases
(effective for annual reporting periods beginning on or after 1 January 2019

NZ IFRS 16: Leases removes the distinction between operating and finance leases for lessees and requires a lessee to recognise all leases on balance sheet through:

- An asset representing its right to use the leased item for the lease term;
- A liability for its obligation to pay rentals

NZ IFRS 16 contains guidance on identification, recognition, measurement, presentation and disclosure of leases by lessees and lessors.

The new standard will result in recognition of right-to-use assets and lease liabilities for those leases disclosed in note 19. Under NZ IFRS 16 Leases, these rental and operating leases will be recognised on the balance sheet as a right-of-use asset and a corresponding lease liability. Based on the preliminary calculations the right to use asset and lease liability are expected to range between $500,000 and $550,000 at 30 June 2019.

The lease payments are currently recognised in operating expenses. In future the expense will be recorded as amortisation on the right to use asset and interest cost on the lease liability. The net impact on surplus/(deficit) before tax is expected to be immaterial.

3. OPERATING REVENUE

	As at 30 June 2019 *$,000*	As at 30 June 2018 *$,000*
Sales revenue	58,810	52,718
New Zealand carbon credits	4,247	6,467
Gain on sale of property, plant and equipment	9	482
Other revenue	174	197
	63,240	**59,864**

ACCOUNTING POLICY

Revenue Recognition

Revenue from contracts with customers is recognised when performance obligations have been satisfied.

In respect of export sales, the largest category of sales, the Company has determined that there are two performance obligations. The Company is obligated under the contract to supply the specified goods and also to arrange and pay for shipping and insurance on behalf of the customer. Control of the goods passes, and the service of arranging shipping and insurance is complete, at the point when the goods have been loaded onto a ship at the port of departure, to be delivered to the customer's chosen destination. Revenue is recognised at this point in time.

In respect of domestic sales within New Zealand, control is considered to be transferred to the customer on delivery of the goods.

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

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

4. OTHER EXPENSES

	As at 30 June 2019 $,000	As at 30 June 2018 $,000
Audit fees - for audit of financial statements	36	36
Donations	10	17
Loss on sale of property, plant and equipment	4	181
Rental expense on operating leases	76	71
Research expenditure	214	205
Cost of bush applied	8,860	10,761
Shipping costs	10,418	7,714
Write down of land value	462	1,528
Subvention	501	532
Other operating expenses	6,334	7,499
	26,915	**28,544**

5. FORESTRY ASSETS

	As at 30 June 2019 $,000	As at 30 June 2018 $,000 (restated[1])
Balance at the beginning of the year	150,172	136,333
ADD		
Costs capitalised in establishing forests during the year	2,275	2,353
Increase in forest from acquisition	90	2,575
Forestry revaluation	20,333	19,672
LESS		
Cost of trees harvested at fair value	(8,860)	(10,761)
	164,010	**150,172**
Gains/(losses) arising from changes in fair value less point of sale costs;		
attributable to physical changes	7,224	12,097
attributable to price changes	13,109	7,575
	20,333	**19,672**

The Directors of City Forests Limited revalue its forestry assets annually at 30 June 2019.

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

Fair value requires calculating the present value of expected net cash flows using a post-tax discount rate. This discount rate used by the Company is 6.0% (2018 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 6.0%; a +/- 50 basis point movement in the discount rate would change the valuation by +$8.85 mil / -$8.04 mil. A 10% increase or decrease in

[1] **Refer Note 2**

assumed log prices would change the valuation by +$13.59 mil / -$13.56 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 2019 the Company owned stands of trees on 18,143 hectares of a total land holding (including lease, Joint Venture & Forestry Right) of 22,544 hectares. During the year the Company harvested approx. 336,374 m^3 of logs from its forests.

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

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

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

ACCOUNTING POLICY

The company capitalises the initial costs for the establishment of the forest and all subsequent costs. These costs include site preparation, establishment, releasing, fertilising and tending.

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

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

6. NEW ZEALAND CARBON CREDITS

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

A forest owner with forests established after 31st December 1989, under the Act, may opt to join the Emissions Trading Scheme. Post-89 forests will earn carbon credits (NZU's) from 1st January 2008 and these may be traded within New Zealand. City Forests Limited completed registration of the Post-89 forests under the Emissions Trading Scheme in January 2010. These forests have been sequestering carbon under the scheme since 1st January 2008. Subsequent to our Post-89 registration, the New Zealand Government has allocated City Forests 2,503,401 Post-89 derived NZU's, being the carbon sequested by these forests during the 2008 to 2019 calendar years. There were 300,000 carbon credit sales for the financial year.

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

As at 30th June 2019, 1,164,008 units were unsold (2018 1,280,834). 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 2019 *$,000*	As at 30 June 2018 *$,000*
New Zealand carbon credits	26,894	27,024

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

ACCOUNTING POLICY

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

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

7. PROPERTY, PLANT AND EQUIPMENT

2019	LAND OTHER VALUATION $'000	FOREST LAND VALUATION $'000	BUILDING COST $'000	ROADS BRIDGES COST $'000	PLANT EQUIPMENT COST $'000	MOTOR VEHICLES COST $'000	OFFICE EQUIPMENT COST $'000	WORK IN PROGRESS COST $'000	TOTAL $'000
Cost or Valuation									
Balance at beginning of year	-	43,322	665	7,886	1,448	665	274	28	54,288
Increase through acquisition	-	-	-	-	-	-	-	-	-
Purchases/revaluation	755	10,750	1,263	254	172	90	44	(26)	13,302
Disposals	-	-	-	-	-	(46)	(87)	-	(133)
Transfer to assets held for sale	-	-	-	-	-	-	-	-	-
Balance at end of year	**755**	**54,072**	**1,928**	**8,140**	**1,620**	**709**	**231**	**2**	**67,457**
Accumulated depreciation/impairment									
Balance at beginning of year	-	1,847	157	4,252	1,054	441	231	-	7,982
Depreciation	-	-	30	192	62	60	28	-	372
Impairment	-	462	-	-	-	-	-	-	462
Disposals	-	-	-	-	-	(35)	(83)	-	(118)
Transfer to assets held for sale	-	-	-	-	-	-	-	-	-
	-	**2,309**	**187**	**4,444**	**1,116**	**466**	**176**	**-**	**8,698**
BALANCE AT END OF YEAR	**755**	**51,763**	**1,741**	**3,696**	**504**	**243**	**55**	**2**	**58,759**
Comprising – Cost	-	-	1,741	3,696	504	243	55	2	6,241
– Valuation	755	51,763	-	-	-	-	-	-	52,518

Telfer Young provided valuations for specific land & buildings purchased current year and the forestry land valuations were obtained from Morice Limited which is the valuation Company used by various other forestry companies. The revaluation movement in the land for the year ended 30 June 2019 was $4,735k (2018 $2,277k). All other asset classes are shown at cost.

ACCOUNTING POLICY

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

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

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

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

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

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

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

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

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

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

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

Depreciation rates and methods used are as follows:

	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 via surplus or deficit in the year the item is derecognised.

2018

	LAND OTHER VALUATION $'000	FOREST LAND VALUATION $'000	BUILDING COST $'000	ROADS BRIDGES COST $'000	PLANT EQUIPMENT COST $'000	MOTOR VEHICLES COST $'000	OFFICE EQUIPMENT COST $'000	WORK IN PROGRESS COST $'000	TOTAL $'000
Cost or Valuation									
Balance at beginning of year	-	36,144	1,403	7,188	4,470	694	239	-	50,138
Increase through acquisition	-	-	-	-	-	-	-	-	-
Purchases/revaluation	-	7,178	390	698	147	48	25	28	8,514
Disposals	(290)	-	(1,637)	-	(5,814)	(198)	(73)	-	(8,012)
Transfer to assets held for sale	290	-	509	-	2,645	121	83	-	3,648
Reclassified as intangibles	-	-	-	-	-	-	-	-	-
Balance at end of year	**-**	**43,322**	**665**	**7,886**	**1,448**	**665**	**274**	**28**	**54,288**
Accumulated depreciation									
Balance at beginning of year	-	389	1,279	4,072	4,176	448	206	-	10,570
Depreciation		-	6	180	47	69	14	-	316
Impairment		1,458	(1,128)	-	(3,178)	(77)	(5)	-	(2,930)
Disposals	(30)	-	(260)	-	(2,045)	(115)	(65)	-	(2,515)
Transfer to assets held for sale	30	-	260	-	2,054	116	82	-	2,541
	-	**1,847**	**157**	**4,252**	**1,054**	**441**	**232**	**-**	**7,982**
BALANCE AT END OF YEAR	**-**	**41,475**	**508**	**3,634**	**394**	**224**	**42**	**28**	**46,306**
Comprising – Cost	-	-	508	3,634	394	224	42	28	4,831
– Valuation	-	41,475	-	-	-	-	-	-	41,475

8. EQUITY - SHARE CAPITAL

	As at 30 June 2019 $,000	As at 30 June 2018 $,000
Issued Capital The Company has issued 25,690,522 ordinary shares and these are fully paid. Fully paid ordinary shares carry 1 vote per share and carry the right to dividends and pro rata share of net assets on winding up of the Company.	**25,691**	**25,691**

9. RESERVES

Forestry Reserve

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

	As at 30 June 2019 $,000	As at 30 June 2018 $,000
Balance at beginning of the year	72,514	62,732
Transfer from retained earnings	9,513	9,782
BALANCE AT THE END OF THE YEAR	**82,027**	**72,514**

	As at 30 June 2019 *$,000*	As at 30 June 2018 *$,000*

Hedging reserve

Balance at beginning of the year	(794)	(16)
Gain/(loss) in fair value movement in derivatives	400	(778)
BALANCE AT THE END OF THE YEAR	**(394)**	**(794)**

Land Revaluation Reserve

Balance at beginning of the year (restated)[1]	25,550	23,273
Forestry land revaluations	4,735	2,277
BALANCE AT THE END OF THE YEAR	**30,285**	**25,550**

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

Carbon Credit Reserve

Balance at beginning of the year	8,411	10,820
Gain in carbon credits above initial recognition value	1,990	3,873
Less transferred to retained earnings	(4,704)	(6,282)
BALANCE AT THE END OF THE YEAR	**5,697**	**8,411**

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

10. RETAINED EARNINGS

	As at 30 June 2019 *$,000*	As at 30 June 2018 *$,000*
Balance at the beginning of the year	**28,971**	**16,558**
Net profit/(loss) for the year	25,232	23,913
Dividend distributions	(8,000)	(8,000)
Transfer to forestry reserve	(9,513)	(9,782)
Transfer from carbon credit reserve	4,763	6,282
BALANCE AT THE END OF THE YEAR	**41,453**	**28,971**

11. FINANCIAL INSTRUMENTS

Currency derivatives

Currency Risk

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

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

[1] **Refer Note 2**

	Average exchange rate 2019	Foreign currency 2019 FC'000	Contract value 2019 NZD'000	Fair value 2019 NZD'000	Fair value 2018 NZD'000
Cashflow hedges Sell USD					
Current	0.689	10,200	14,802	(336)	(554)
Non current	0.672	5,600	8,327	34	(245)
				(302)	**(799)**

2019 Financial Assets	<1 yr	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	5 yrs	TOTAL
Trade and other receivables	4,838	-	-	-	-	-	4,838
Derivative financial instruments	32	53	-	-	-	-	85
	4,870	**53**	**-**	**-**	**-**	**-**	**4,923**

Financial Liabilities

Trade and other payables	3,521	-	-	-	-	-	3,521
Derivative financial instruments	369	18	246	-	-	-	633
Borrowings	595	-	-	-	-	13,005	13,600
	4,485	**18**	**246**	**-**	**-**	**13,005**	**17,754**

2018 Financial Assets	<1 yr	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	5 yrs	TOTAL
Trade and other receivables	2,677	-	-	-	-	-	2,677
Derivative financial instruments	-	-	-	-	-	-	-
	2,667	**-**	**-**	**-**	**-**	**-**	**2,677**

Financial Liabilities

Trade and other payables	2,747	-	-	-	-	-	2,747
Derivative financial instruments	645	245	-	212	-	-	1,102
Borrowings	261	-	-	263	310	14,266	15,100
	3,653	**245**	**-**	**475**	**310**	**14,266**	**18,949**

Under NZ IFRS 9, all the financial assets and liabilities are measured at amortised cost, fair value through profit and loss, or fair value through OCI on the basis of the Company's business model for management the financial instrument and the contractual cash flow characteristics of the financial instrument.

The Company enters into derivative financial instruments to manage its exposure to interest rate risks. There was no change of classification in relation to derivatives, these continue to be measured at fair value through profit or loss.

Apart from investments and derivatives financial instruments, the Company's financial assets and liabilities including cash and cash equivalents, trade and other receivables, trade and other payables, accruals and term borrowings continue to measured at amortised cost as they meet the conditions under IFRS 9.

Under NZ IFRS 9, the new impairment model requires the recognition of impairment provisions based on expected credit losses. It applies to financial assets classified at amortised cost. The introduction of the new impairment model has had no impact on the Company's financial assets classified at amortised cost. For trade and other receivables, the Company applies a simplified model of recognising lifetime expected credit losses as these items do not have a significant financing component. Based on the assessment undertaken, no adjustment was required on transition.

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.

Impairment of Financial Assets

The Company has financial assets that are subject to the expected credit loss model:

- Trade receivable for sales of goods

While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

Trade Receivables

The Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due.

The expected loss rates are based on the payment profiles of sales over a period of 24 months. The corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macro-economic factors affecting the ability of the customers to settle the receivables. The Company has identified increased debtor terms and accordingly adjusts the historical loss rates based on expected changes in these factors. Only New Zealand debtors have been used for the expected loss calculation. There has been no losses on export sales over the last 5 year period and have been excluded from this calculation.

On that basis, the loss allowance as at 30 June 2019 (on adoption of IFRS 9) was determined as follows:

30 June 2019	Current	More than 30 days past due	More than 60 days past due	More than 120 days past due	Total
Expected loss rate	0.0%	0.5%	0.5%	2.6%	
Gross carrying amount – trade receivables	1,458	686	-	-	2,144
Loss allowance	-	4	-	-	4

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

	As at 30 June 2019 *$,000*	As at 30 June 2018 *$,000*
Maturing in less than one year	-	5,000
Maturing between one and five years	3,000	3,000
Maturing after five years	-	-
	3,000	**8,000**

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.

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 .6700.
- A parallel shift of +1% / -1% in the NZD market interest rate from the year end 90 day BBBR of 1,64%.

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%*	
		Equity	Profit	Equity	Profit	Equity	Profit	Equity	Profit
Financial Assets									
Derivatives Currency Hedges – Sell USD	23,130	-	-	-	-	-	2,620	-	(2,144)
Other Financial Assets	2,604	-	-	-	-	-	289	-	(237)
Financial Liabilities									
Interest rate swaps	3,000	(78)	-	76	-	-	-	-	-
Total increase/(decrease)		**(78)**	**-**	**76**	**-**	**-**	**2,909**	**-**	**(2,381)**

1. Accounts receivable within City Forests Limited include $1.745 million of USD denominated receivables at year end.
2. Derivatives subject to the hedge accounting regime are managed by the Company to be 100% effective and thus there is no sensitivity to equity change in either interest rates or exchange rates.
3. Borrowings are subject to an interest rate hedging policy. Sensitivity to any movement in the interest rate is limited to the effect on the amount of floating rate debt that exceeds the amount of the fixed rate hedge.
4. The carrying value of the derivative has been calculated based on rates on each individual contract.

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).

	2019				2018			
	Level 1	Level 2	Level 3	TOTAL	Level 1	Level 2	Level 3	TOTAL
	NZ $'000	*NZ $'000*	*NZ $'000*	*NZ $'000*	*NZ $'000*	*NZ $'000*	*NZ $'000*	*NZ $'000*
Financial Assets								
Derivative financial assets	-	85	-	85	-	-	-	-
New Zealand carbon credits	26,894	-	-	26,894	27,024	-	-	27,024
	26,894	**85**	**-**	**26,979**	**27,024**	**-**	**-**	**27,024**

	2019				2018			
	Level 1 NZ $'000	Level 2 NZ $'000	Level 3 NZ $'000	TOTAL NZ $'000	Level 1 NZ $'000	Level 2 NZ $'000	Level 3 NZ $'000	TOTAL NZ $'000
Financial Liabilities								
Derivative financial liabilities	-	633	-	633	-	799	-	799
	-	**633**	**-**	**633**	**-**	**799**	**-**	**799**

ACCOUNTING POLICY

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

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

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

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

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

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

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

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

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

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

The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non financial items that are eligible for hedge accounting. In addition, the effectiveness test has been replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required.

In accordance with the NZ IFRS 9's transitional provisions for hedge accounting, the Company has applied the NZ IFRS 9 hedge accounting requirements prospectively from the date of initial application on 1 July 2018. The Company's qualifying hedging relationships in place as at 1 July 2018 also qualify for hedge accounting in accordance with NZ IFRS 9 and were therefore regarded as continuing hedge relationships. No rebalancing of any of the hedging relationships was necessary on 1 July 2018. As the critical terms of the hedging instruments match those of their corresponding hedge items, all hedging relationships continue to be effective under NZ IFRS 9's effectiveness assessment requirements. The Company has also not designated any hedging relationships under NZ IFRS 9 that would not have met the qualifying hedge accounting criteria under NZ IFRS 39.

12. TERM BORROWINGS

	As at 30 June 2019 *$,000*	As at 30 June 2018 *$,000*
Dunedin City Treasury loan facility	13,600	15,100
	13,600	15,100

The forestry loans are from the Ministry of Primary Industries. They are fixed rate loans secured by registered interest over certain land assets and are covered by repayment insurance. Each loan is associated with an individual stand of trees and is repayable by equal quarterly repayments over the 10 years commencing January 2012. The interest capitalised for the year ended 30 June 2019 was $Nil (2018 $254,887). These loans have been fully repaid as at 29 June 2018.

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

The effective rate of interest for the Dunedin City Treasury Limited loan facility, ranged between 3.95% and 6.085% (2018 4.5% – 7.53%).

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

Multi-option note facility	-	15,100
	-	15,100

The repayment period on the term borrowings is as follows:

Current	-	-
Non Current	13,600	15,100
	13,600	**15,100**

ACCOUNTING POLICY

Borrowings

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

Government Loans

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

13. INCOME TAX

	As at 30 June 2019 $,000	As at 30 June 2018 $,000
Profit before income tax	**34,768**	**33,055**
Tax thereon at 28%	9,735	9,255
PLUS/(LESS) THE TAX EFFECT OF DIFFERENCES		
Income not assessable for taxation	-	(87)
Expenditure not deductible for taxation	155	440
Under / (over) tax provision in prior years	7	(8)
Losses utilised from Dunedin Stadium Properties Ltd	(361)	(384)
Reversal of deferred tax liability on disposal of buildings & land	-	(74)
Tax effect of differences	**(199)**	**(113)**
Tax expense	**9,536**	**9,142**
TAX EXPENSE MADE UP AS FOLLOWS:		
Continued operations	9,536	9,142
	9,536	**9,142**
Effective tax rate	27.6%	26.6%
REPRESENTED BY		
Current tax provision	6,659	4,655
Deferred tax provision	2,870	4,495
Under / (over) tax provision in prior years	7	(8)
	9,536	**9,142**

Tax Rate

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

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

ACCOUNTING POLICY

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

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

14. DEFERRED TAX LIABILITIES AND ASSETS

2019	OPENING BALANCE SHEET $'000	CHARGED TO EQUITY $'000	CHARGED TO INCOME $'000	CLOSING BALANCE SHEET ASSETS $'000	LIABILITIES $'000	NET $'000
Property, plant and equipment	329	-	(12)	-	317	317
Employee provisions	(58)	-	(17)	(75)	-	(75)
Forest	28,200	-	3,700	-	31,900	31,900
Capitalised forestry costs	9,794	-	35	-	9,829	9,829
Revaluations of foreign exchange contracts	(223)	138	-	(85)	-	(85)
Revaluations of interest rate swaps	(85)	17	-	(68)	-	(68)
Revaluation of carbon credits	7,413	796	(832)	-	7,377	7,377
Other	-	-	3	-	3	3
Balance at the end of the year	**45,370**	**951**	**2,877**	**(228)**	**49,426**	**49,198**

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

ACCOUNTING POLICY

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

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

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

15. RELATED PARTY TRANSACTIONS

Transactions with Dunedin City Council Group

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

	As at 30 June 2019 *$,000*	As at 30 June 2018 *$,000*
Purchases of goods and services from the Dunedin City Council:		
Rates and property rentals	15	16
Other	12	2
	27	**18**
Dunedin City Holdings Limited		
Roading & Earthmoving Services	614	380
Delta Utility Services Limited		
Managing Services	50	50
Dividends	8,000	8,000
	8,050	**8,050**
Payable to Delta Utility Services Limited	49	42
Subvention payments/tax compensation		
Dunedin Stadium Property Limited	1,700	1,608
Dunedin Railways Limited	30	-
Aurora Energy Limited	1,099	62
Dunedin City Holdings Limited	486	-
Delta Utility Services Limited	374	-
Dunedin City Council	319	804
	4,008	**2,474**
Subvention payable: Dunedin Stadium Property Limited	501	532

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

Loan from Dunedin City Treasury Limited as at balance date	13,600	15,100
Loans received during the year	7,300	8,800
Loans paid during the year	8,800	9,050
Interest due to Dunedin City Treasury Limited as at balance date	33	70
Interest paid during the year	541	666
Interest rebate received	25	12
Net interest	516	654
Other payments including facility fees	-	-

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

Transactions with companies in which Directors have an interest;

During the course of the year:

	Year ended 30 June 2019 $,000	Year ended 30 June 2018 $,000
Mr M C Horne had related party interests with the following organisations during the year.		
Director, Palmers Mechanical Limited.	64	27
Director, Deloitte Financial Services/Directorship	179	133

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

Payable to Palmers Mechanical Ltd	11	24
Payable to Deloitte	5	9

Compensation of key management personnel

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

Salaries and Short-term benefits	1,021	977
Post-Employment benefit	-	-
	1,021	**977**

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

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

	As at 30 June 2019 $,000	As at 30 June 2018 $,000
Net gain for the year	25,232	23,913
Items Not Involving Cash Flows		
Depreciation and loss on sale	383	506
Depletion of forest (cost of bush)	8,860	4,674
Deferred tax	2,876	4,497
Depreciation recovered/capital gains	(9)	(481)
Forestry revaluation	(20,333)	(13,585)
Allocation of carbon credits/revaluation carbon credits/surrender	(4,238)	(6,461)
Write down value of land	462	1,528
OTHER NON-CASH ITEMS		
Impact of Changes in Working Capital Items		
(Increase)/Decrease in accounts receivable	(2,160)	232
(Increase)/Decrease in inventories	(385)	(237)

	As at 30 June 2019 $,000	As at 30 June 2018 $,000
(Increase)/Decrease in prepayments	14	285
(Increase)/Decrease in tax refund due	2,059	1,633
Increase/(Decrease) in accounts payable	799	(1,039)
Increase/(Decrease) in other current liabilities	18	(112)
Net cash inflows/(outflows) from operating activities	**13,578**	**15,353**

17. CAPITAL EXPENDITURE COMMITMENTS

There are no capital commitments as at 30 June 2019 (2018 $nil)

18. CONTINGENT ASSETS OR LIABILITIES

There are no contingent assets or liabilities as at 30 June 2019 (2018 $nil)

19. LEASE COMMITMENTS

	As at 30 June 2019 $,000	As at 30 June 2018 $,000
(i) Minimum operating lease commitments		
Payable within one year	92	91
Payable between one to five years	85	174
Payable later than five years	-	-
	177	**265**

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

ACCOUNTING POLICY

Leasing

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

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.

20. RECONCILIATION OF LIABILITIES FROM FINANCING ACTIVITIES

2019	2019 $'000	Cashflow $'000	Capitilised Interest $'000	Foreign Exchange Movement $'000	Fair Value Changes $'000	2019 $'000
			Non cash changes			
Long term borrowings	15,100	(1,500)	-	-	-	13,600
Derivative financial instruments	457	-	-	-	(193)	264
Short term derivative financial instruments	645	-	-	-	(276)	-
	16,202	**(1,500)**	**-**	**-**	**(469)**	**14,233**

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

STATEMENT OF SERVICE PERFORMANCE

FOR THE YEAR ENDED 30 JUNE 2019

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

	PERFORMANCE TARGET	ACHIEVEMENT
1a	The Company will achieve a 6% post-tax (or greater) return on shareholders' funds measured on a 3 year rolling average basis	Three year rolling average return on shareholders' funds is 14.3%.
1b	A review of the Company's long term strategic plan will have been completed which meets the objective of a 6% post-tax return on shareholders' funds measured on a 3 year rolling average basis.	Strategy day held on 25th June 2019. The Company's long term strategic plan was reviewed and adopted by the shareholder during the annual budget and statement of intent process. The plan incorporates a return on shareholders' funds of; 6.9%, 6.3% and 6.5% for the first 3 years measured on a forecast 3 year rolling average basis.
1c	Opportunities for expanding the Company's scale will have been investigated including joint ventures. The company will report annually on the hectares of land acquired / divested including joint ventures.	The strategic plan incorporates a forest estate expansion program. Six new property purchases total 1003.5ha occurred during the year. No divestments occurred.
2a	No single customer will have received more than 30% of the Company's annual harvest by volume.	Our largest customer Pan Pac Otago Limited received 6.7% of the Company's annual harvest volume.
2b	The Company's sales agency will diversify export sales by geographic market destination and by customer which will be reported annually.	Export volume was shipped to: South Korea: 39.8% spread across 34 customers. China: 60.2% spread across 12 customers.
2c	The Company will realise financial opportunities from the sale of carbon stored in the Company forests, in compliance with carbon policy.	The Company has regularly monitored Carbon sales price during the period and considered its Carbon Sales policy at board level. 300,000 NZU sales occurred during the period.
2d	The Company will balance its exposure to domestic and export revenues taking into account market risk and product margin. The percentage annual supply to the domestic market by volume will be tracked.	Domestic log production was 28.9% by volume. (38.1% last year). Export log sales were 71.1% by volume.
2e	The Company will incorporate Carbon accounting in the strategic plan in accordance with the New Zealand Emissions Trading Scheme (ETS).	The Company's strategy plan incorporates Carbon sales. The future Carbon sequestration and surrender obligations forecast in accordance with the Company's ETS obligations are recognised in the Forest Valuation and Strategic 10 year plan.
3a	The Company will meet its annual supply commitments to domestic customers taking into account agreed variations.	On an annualised basis all customers received their contracted volumes within plus or minus 10%. A number of domestic supply commitments were varied during the year at the request of the customer.
3b	The Company will meet its volume and log quality commitments to export shipping and export customer contracts.	All export commitments were met however purchase wood volumes were needed to supplement Company production for some shipments.

	PERFORMANCE TARGET	ACHIEVEMENT
4a	The annual harvest as detailed in the strategic plan will be within +/- 20% of the long term sustainable yield.	The annual harvest from the Company forest estate during the year was 336,374m³ including billet wood. This is 101.6% of the sustainable yield of 330,923m³. Forecast harvest levels in the long term strategic plan for the next 3 years are; 337,028m³, 330,923m³ and 330,923m³. All are within +/- 20% of the sustainable yield.
4b	The Company will carry out annual forest inventory to measure and verify forest yield. The number of inventory plots measured will be reported.	The Company completed 500 inventory plots during the period.
4c	An annual forest health surveillance program will be in place to assess the forest estate for pests and diseases, as part of the National Surveillance Program	The forest industry wide biosecurity surveillance program was operational during the year. No new incursions were reported in the Company estate.
4d	The annual fire plan will be updated and operational by September each year.	Fire plan update was completed in September 2018 prior to the start of the fire season.
4e	The Company will actively participate in regional land use and environmental planning processes.	The Company actively participated with the Otago Regional Council's implementation of the National Environmental Standard for Plantation Forestry.
5a	The Company will have reviewed the best species and silvicultural management plan to apply to annual operational areas. The Company will report annually on percentage of pruned area by forest as a percentage of stocked P.rad area.	A comprehensive forest growing performance improvement program continued during the year incorporating input from Scion lead researchers and consultants. Pruned P.rad Percentage by Forest is: Silverpeaks 63% Flagstaff 73% Waipori 25% Tokoiti 42% **TOTAL 43%**
6a	The Company will participate in Industry Research Consortia (via the Forest levy) to ensure research objectives are in line with Company Strategy and to gain financial leverage to receive research objectives.	The Company has paid the Forest Growers Levy. Two staff are members of committees (through the Forest Owners Association) which are part of the process of allocating levy research funds. The Company Forest Levy contribution is pooled with industry and Government funds achieving considerable financial leverage enabling significant research to be undertaken.
6b	At least one new forest management technique will be introduced as a result of research findings.	Forest genetic review was undertaken and establishment plans have been modified to increase site productivity as a result of the results. A significant long term productivity trial is established in Tokoiti Forest.
6c	The Company will participate in environmental research to minimise the use of chemicals in compliance with FSC® Standards and Requirements.	Company staff are represented on the Forest Owners Association, Forest Environment Committee which recommends and monitors Forest Industry Levy research spend on chemical trials.
7a	The Company will maintain supply arrangements with Otago and Southland wood processors provided customers match (or better) alternative supply options.	Otago and Southland wood processors receive supply volumes in accordance with the annual plan. Pricing is negotiated each quarter. Customers have been given the option to decline or reduce supply if they are unable to match returns from alternative supply options (log export) and this occurred by agreement with some customers for periods during the year.

	PERFORMANCE TARGET	ACHIEVEMENT
7b	Annual supply volumes to major wood processors (Pan Pac, Craigpine, Niagara & Daiken) will be tracked and reported.	Otago & Southland wood processors were suppled the following volumes during the period: Pan Pac 22,560m³ Craigpine 12,327m³ Niagara 888m³ Hollows 9,113m³ Daiken 14,337m³
7c	The volume of wood supplied to Bioenergy uses will be tracked and reported.	Bioenergy 12,339m³
8a	Lost time accident rates (12 month rolling average) for staff and forest contractors will be reduced to a maximum of 15 lost time injuries per 1,000,000 hours.	12 month rolling lost time accident rate for staff and forest contractors was 0.0 lost time injuries per 1,000,000 hours. (31.7 last year)
8b	The Company will undertake drug and alcohol testing of staff and the contract workforce. The number of random tests and percentage of positive tests will be reported.	87 tests were conducted during the period. One positive random test was recorded, being 1.15%.
8c	Maintain Forest Stewardship Council® Certification of the Company's forests.	Forest Stewardship Council® Certification was maintained following audit in 2018.
8d	A current forest management plan will be in place (as required by FSC® standards) which identifies social and environmental, as well as economic outputs.	The Company has a set of comprehensive forest management plans that have been externally audited as part of the Company maintaining FSC® certification.
8e	The Company will work with partners (DoC, University of Otago etc) to maintain and enhance are threatened and endangered (RT&E) species on and around the Company estate. Sponsorship amounts for these activities will be reported annually.	Sponsorship of $15,000 was awarded to Predator Free Dunedin to contribute towards conservation of rare threatened and endangered (RT&E) species on and around the Company estate.
9a.	The Company will have in place an environmental management system which will include procedures for sustainability monitoring. Results of water sampling and reserve area environmental assessments will be publicly available on the Company's website.	An environmental management system is in place with on-going monitoring of environmental values. This is available on the Company's website and includes water, soil disturbance and reserve biodiversity monitoring.
10a	Company and Contract employees will have a training plan in place. The company will report on the number of National Certificates achieved by its workforce each year.	Company Staff, Contractors and their employees achieved 08 National Certificates during the year.
10b	The Company will engage with its contractors to participate in Modern Apprenticeship programs. The number of apprentices working in Company operations will be reported each year.	At 30 June 2019 no modern apprentices were employed in Company operations as all have completed their apprenticeships.
10c	Each harvesting crew will utilise trained; tree fellers, breaker outs and log makers.	Each harvest crew has multiple trained employees for all three listed tasks. A training matrix is in place to track compliance.
10d	There will be "nil" instances of non-compliance with the Company's EEO policy.	There were no instances of non-compliance with the Company's EEO policy.
11a	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.

	PERFORMANCE TARGET		ACHIEVEMENT	
11b	The Company will maintain a Forest Access Permit system, track and report on recreational use statistics.		Recreation use is monitored through forest access permit issuance. 306 forest access permits were issued during the year.	
11c	The Company will track and report on the distance of public walking and mountain bike tracks in the Company's forests.		The Company has 19.3 km of walking tracks and 23.2km of mountain bike tracks in its forests.	
12a	To contribute to, or assist where possible, with the Dunedin City Council community outcomes (as listed in the Annual Plan). The Company will be mindful the ultimate shareholder is the custodian of the community's interest and accepts that a greater need for consultation may be required.		The Company's financial, sustainability, environmental and recreational achievements compliment the annual plan and are reported quarterly by exception to the ultimate shareholder (DCC) by the Dunedin City Holdings Limited. No issues of conflict with the DCC Annual plan have been identified and therefore no additional consultation has been required.	
12b	Kaitiakitanga (Guardianship and Protection). To maintain and grow the forest estate for future generations of Dunedin Ratepayers. A continued and measured expansion of the forest estate will be part of Company Strategy, actioned and tracked annually.		Company has purchased 1016.7ha of land during the period incorporating approximately 38ha of standing forest.	
13a	Profit before income tax	15,028	Profit before income tax	34,768
13b	Profit after income tax	10,814	Profit after income tax	25,232
13c	Shareholders' equity	152,352	Shareholders' equity	184,759
13d	Normal dividend	6,500	Normal dividend	6,500
13e	Special dividend	-	Special dividend	1,500
13f	Operating cashflow	9,800	Operating cashflow	13,578
13g	Capex	5,800	Capex	8,930
13h	Term debt	17,000	Term debt	13,600

Independent Auditor's Report

To the readers of City Forests Limited's financial statements and statement of service performance for the year ended 30 June 2019

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

Opinion

We have audited:

- the financial statements of the company on pages 16 to 43, that comprise the statement of financial position as at 30 June 2019, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information; and
- the statement of service performance of the company on pages 44 to 47.

In our opinion:

- the financial statements of the company on pages 16 to 43:
  - present fairly, in all material respects:
    - its financial position as at 30 June 2019; and
    - its financial performance and cash flows for the year then ended; and
  - comply with generally accepted accounting practice in New Zealand in accordance with New Zealand equivalents to International Financial Reporting Standards; and
- the statement of service performance of the company on pages 44 to 47 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 2019.

Our audit was completed on 17 September 2019. This is the date at which our opinion is expressed.

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

Basis for our opinion

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

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

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

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

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

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

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

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

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

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

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

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

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

- We identify and assess the risks of material misstatement of the financial statements and the statement of service performance, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.

- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.

- We evaluate the appropriateness of the reported service performance information within the company's framework for reporting its performance.

- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board of Directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists we are required to draw attention in our auditor's report to the related disclosures in the financial statements and the statement of service performance or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.

- We evaluate the overall presentation, structure and content of the financial statements and the statement of service performance, including the disclosures, and whether the financial statements and the statement of service performance represent the underlying transactions and events in a manner that achieves fair presentation.

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

Our responsibilities arise from the Public Audit Act 2001.

Other information

The Board of Directors is responsible for the other information. The other information comprises the information included on pages 3 to 15, but does not include the financial statements and the statement of service performance, and our auditor's report thereon.

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

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

Independence

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

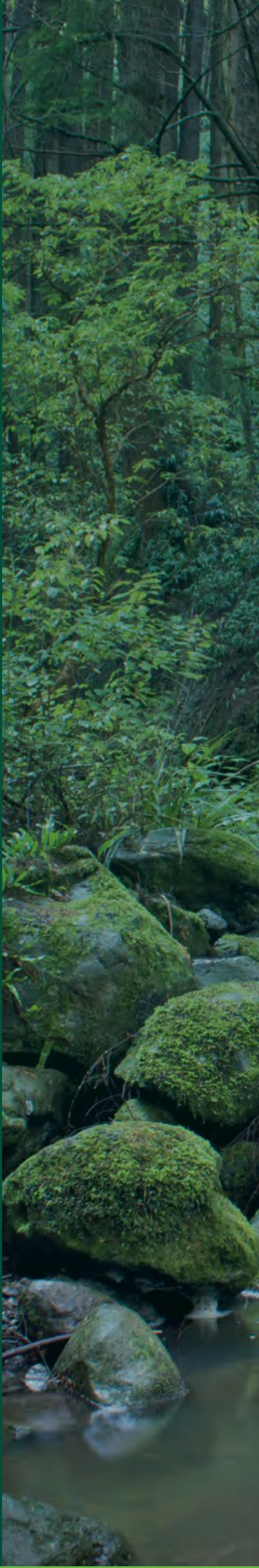
Other than the audit, we have no relationship with, or interests in, the company.

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


OTAGO HARBOUR

The most **practical** and **effective** method to **fight climate change** is to

plant trees



City Forests

www.cityforests.co.nz