City Forests

ANNUAL REPORT 2020

City Forests

QUICK FACTS

Community owned, city asset

City Forests is owned by the City of Dunedin, Ōtepoti and includes more than 19,100ha of productive forests, with around 8.5 million trees.

City Forests include over 43km 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 $71.1M to the city in dividends since 1990.

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 1.87M 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).

$4.5M

in **Dividends**
for the year ended
30 June 2020

80

Staff and
contractors
employed

18,819m³

OF **Bioenergy** supplied

$18.6K

DONATED TO **community food banks**

50% company donations and 50% staff personal donations

1.87M TONNES

of **carbon stored** in **City Forests**

$60K

Ecological sponsorships including:

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

23,731ha

OF land UNDER management

1

Serious Harm Incident

43.6km

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

995,000

NEW TREES PLANTED 2019/2020

CONTENTS

City Forests

www.cityforests.co.nz

COMPANY PARTICULARS

AS AT 30 JUNE 2020

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, retired 27 September 2019

S A Mason - F.C.A., CM.Inst.D, B Com., cBA., DipGradBus., (Disp Res), AAMINZ
Appointed 01 October 2019

K A Posa - BMS(Hons), CA. GAICD, CM.Inst.D.
Appointed 01 October 2019

M I Shirley - M.HSc., BPhty
Intern Director Appointed 1 December 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 2020

The Directors of City Forests Limited are pleased to present their report on the activities of the Company for the year ended 30 June 2020.

PRINCIPAL ACTIVITIES OF THE COMPANY

This report covers the financial year 1 July 2019 to 30 June 2020.

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

Results for the Year Ended 30 June 2020	*$,000*
Operating Surplus before Income Tax	17,665
Less Income Tax	4,987
Net Surplus for the Year	**12,678**

STATE OF AFFAIRS

The Directors are very pleased with the results achieved by the Company during the year having regard to the disruption experienced during the year from COVID-19 and believe that the state of affairs of the Company is satisfactory.

DIVIDENDS

The Directors declared and paid a total of $4,500,000 in Dividends during the year made up of;

- an interim un-imputed dividend of $2,000,000 in December 2019
- a final un-imputed dividend of $2,500,000 in June 2020

DONATIONS

There have been donations made of $27,900 during the year.

RESERVES

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

	$'000
To Forestry Reserve	2,468
To Retained Earnings	9,476
From Hedging Reserve	(5)
To Land Revaluation Reserve	2,796
To Carbon Credit Reserve	2,322

REVIEW OF OPERATIONS

This review of operations and the accompanying financial reports cover the 1 July 2019 to 30 June 2020 financial year.

Directors are pleased to report another satisfactory performance for City Forests Limited during the year recording a profit after tax of $12.6m and dividends paid of $4.5m. 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. Prices generally fell throughout the year particularly during the second half of the financial year which was dominated by the spread of the COVID-19 virus that originated in China and has subsequently spread across the globe. The virus has impacted both production due to local lockdown restrictions and demand from the Company's markets. As a result log prices have been volatile throughout the year in the "price setting" China market, initially falling due to COVID-19 uncertainty and later increasing due to supply concerns only to moderate again to match reduced demand. Changes in the China market were mirrored in South Korea.

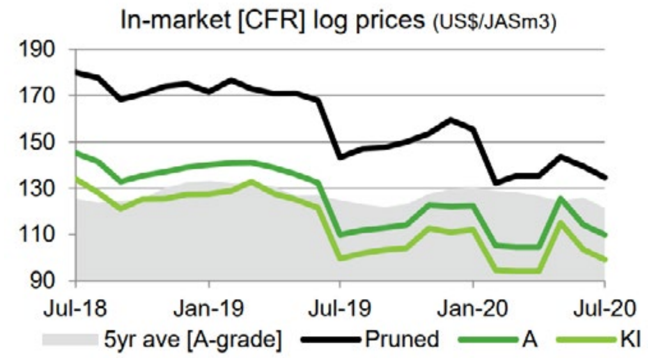


Chart: In Market Export Log Prices

The cost per cubic metre of international shipping to Asian markets was also volatile trading within a range of USD $18 to USD $33 throughout the year.

Chart: Shipping Costs

The value of the New Zealand Dollar compared to the United States Dollar was likewise volatile during the year across the 0.58c – 0.67c range.

The combination of generally falling log market prices, shipping costs and a volatile New Zealand Dollar delivered a period of reduced log export returns for New Zealand forest owners compared to the last three years.

HEALTH AND SAFETY

The Board and Management of the Company are 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 6.4 lost time injuries per 1 million hours worked (0.0 previous year). One contract forest operation employee had a lost time incident working on the Company estate during the year.

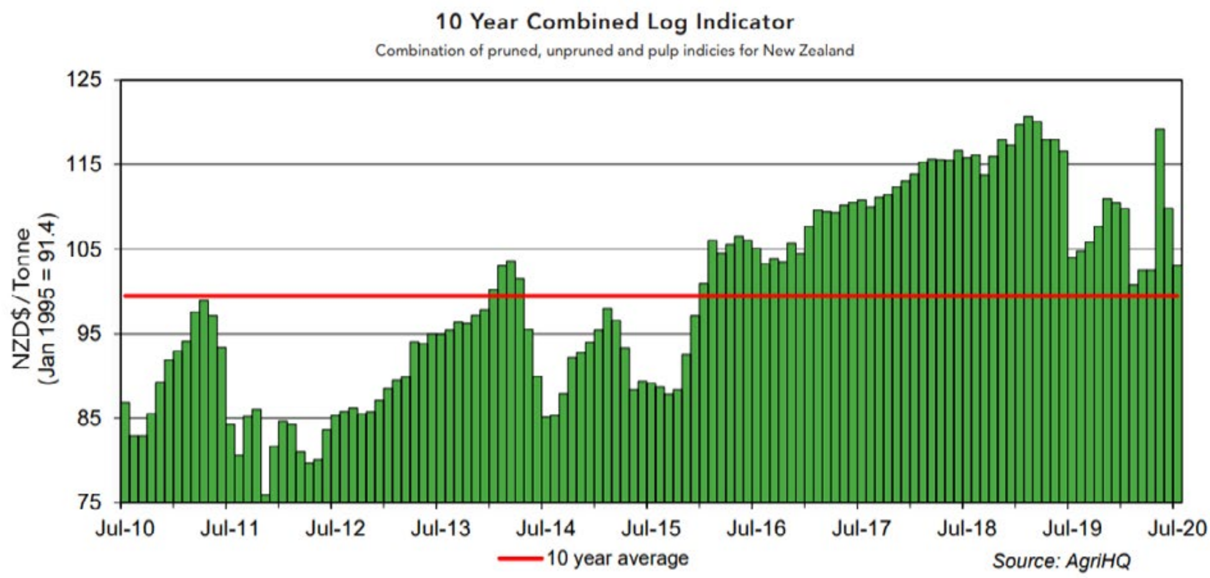
The Company continued to improve its health and safety systems in accordance with its annual plan. The areas of contractor certification, pre-operation risk assessment, internal safety audit systems, driver training and drug and alcohol testing were a focus for the year. Industry COVID-19 work protocols for each alert level have been developed by the Forest Industry Safety Council and have been adopted in full by the Company enabling it to operate at Level 3 and below.

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

Chart: New Zealand Industry Average Log Prices



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 significant variation in the value of the New Zealand Dollar due to the impact of COVID-19.

DOMESTIC LOG MARKET

The Company continues to supply domestic mills in Otago and Southland. Overall 33.7% (28.9% previous year) of log production from the Company's forests was supplied to Domestic customers. Domestic supply is principally limited by both production availability of the required domestic log grades and domestic processing capacity. Throughout the year domestic wood processors also lost production during the COVID-19 lockdown period.

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

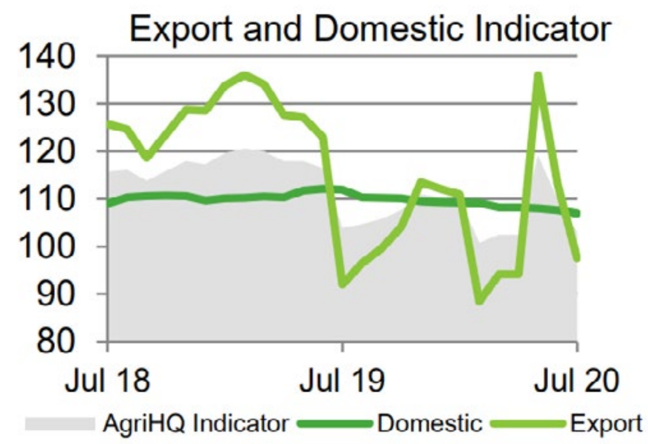


Chart: New Zealand Industry Average Export and Domestic Prices

BIO-ENERGY

The Company continues to supply logs into the 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 satisfactory production year noting the requirement to reduce production to match reduced log export demand arising from COVID-19 followed by the New Zealand Level 4 lockdown period when no production occurred for 5 weeks. The overall production from the forest estate was 310,100m³ compared to 337,028m³ planned. The forests continued to grow during COVID-19 disruptions and the volume not harvested remains available for future harvest within sustainable cut allowances. The Company intends to catch up production lost when market conditions allow.

Part of the 2019/2020 harvest program occurred in the Scout Association joint venture area. This is the second of a series of harvest periods that will occur in joint venture forest areas.

The Company handled a total volume of 337,193m³ for the year. 27,093m³ of outside wood was traded during the year principally to supplement log export operations.

ROADING AND INFRASTRUCTURE

A roading network of approximately 347 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.

During the period the Company carried out significant road development work on newly acquired properties as well as upgrading access roads to existing forest areas prior to harvest. Additional work was carried out compared to plan to ensure harvest options were available to meet the volatile market conditions experienced.

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 Company's 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.

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 principles and criteria. These principles 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 principles 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 1195 ha of new land (1016.7 ha previous year). The land is situated close to the Company's existing Takitoa, Hillend and Glenledi forests and will be progressively planted during the 2021 and 2022 planting seasons. The new land will be planted with the express intention of providing an increase in the Company's sustainable harvest level, and providing additional carbon sequestration. The Company continues with its strategy of estate expansion where quality forest and/or land can be acquired economically in proximity to the existing estate.

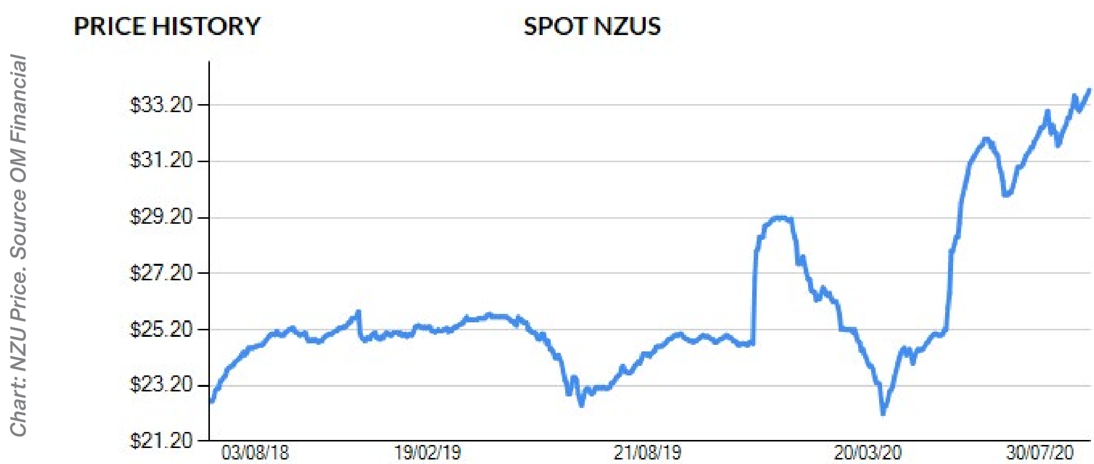
CARBON

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 2019 emissions year. As at 30 June 2020 the Company has received 182,019 NZU's during 2019/2020.

The Company has sold 350,000 NZU's during the year. The market price of an NZU increased during the year from the $23 per NZU range into the $32 per NZU range following Government announcements regarding future Emission Trading Scheme settings.

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 $5.141 million from the previous year. The main positive drivers of the valuation change were increases in sustainable cut, increasing 5-year average log prices and an increase in forecast forest yields per hectare. These factors were in part offset by increases in production costs, principally log cartage which increased as a result of road user charge increases and other inflation factors.

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 previous years. 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.

DIVIDENDS

The Company has paid a dividend to the shareholder of $4.5 million during the year. The dividend was decreased from the budgeted dividend of $6.5 million as a result of trading being temporarily disrupted by the COVID-19 pandemic 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. Personal recreation activities such as walking, mountain biking, horse trekking and hunting access are the most notable events.

Many organised events such as military exercises, the Rally of Otago and cross country running events were not held this year due to the COVID-19 pandemic.

The Company's financial contribution to the community has continued. A number of donations and sponsorships totalling $72,166 have been made to various organisations, community groups and charities. The most significant contributions are: Orokonui Ecosanctuary $30,000, Landscapes Connection Trust (Predator Free Dunedin) $15,000, Yellow Eyed Penguin Trust $5,000, Otago Peninsula Biodiversity Group $5,000, Otago Wildlife Hospital Trust $5,000. Three community foodbanks received $18,600 of cash donations; $6,200 each made up of voluntary Director and Staff donations of $9,250 and Company donations of $9,350. In addition, approximately 35m^3 of firewood was split and delivered by staff to recipient families as nominated by foodbank organisations. Further non cash donations of firewood logs 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. The impact of the COVID-19 pandemic is currently a further risk factor potentially increasing future market volatility. 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 continue modest investment in economically viable new land and forest purchases that are selectively targeted within its operational area.

In summary, the 2019 – 2020 year has been satisfactory in terms profitability noting the COVID-19 disruptions. The Company has paid a significant, albeit reduced, dividend as well as expanded the business through the acquisition of 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 2021 financial year is to deliver a strong result although profitability may be variable 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 is impacted by the COVID-19 pandemic and other related factors throughout the year.

The Company's financial performance is driven by export and domestic log sales and strong customer relationships. A dividend of $4.2 million is forecast for the 2021 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 over the last two years. 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 an increase in the market price over 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

Mr Mark Shirley has been appointed to attend the Company's Board meetings as a non-voting Intern Director during the financial year as part of the Dunedin City Holdings Limited, Graham Crombie Director Internship Program.

FINANCIAL STATEMENTS

The audited financial statements for the year ended 30 June 2020 are attached to this report.

DIRECTORS' INTERESTS IN CONTRACTS

Refer to Directors' Declarations of Interest section on page 12 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	2
$110,000 - $120,000	1
$170,000 - $180,000	1
$200,000 - $210,000	1
$210,000 - $220,000	1
$340,000 - $350,000	1

INFORMATION ON THE DIRECTORS OF CITY FORESTS LIMITED

Director and responsibilities	Renumeration $,000 2020	2019
John F Gallaher Non-Executive Director *(Appointed 1st November 2012)* Chairman Remunerations Sub-committee *(Appointed 1st October 2013)*	**57**	**56**
Tim J Mepham Non-Executive Director *(Appointed 1st December 2013)*	**32**	**32**
Michael C Horne Non-Executive Director *(Appointed 9th December 2013)* *(Retired 30th September 2020)*	**8**	**32**
Scott A Mason Non-Executive Director *(Appointed 1st October 2019)*	**24**	**-**
K Alison Posa Non-Executive Director *(Appointed 1st October 2019)*	**24**	**-**

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, particularly in light of the challenges created by the COVID-19 lockdown. 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.

On behalf of the Board of Directors:

J F Gallaher
Chairman

DATE: 25/9/20

T J Mepham
Director

DATE: 25/9/20

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

Chairman appointed October 2013
Date appointed 1st November 2012

- Chairman, Otago Southland Diocesan Board of Finance
- Chairman, Tui Motu Foundation Inc
- Chairman, United Way NZ Inc
- Chairman, TracPlus Global Limited
- Chairman, Mercy Hospital Dunedin Limited
- Chairman, Tu Kupenga C.L. Institute
- Chairman, Fund Managers Otago Limited
- Chairman, Mortgage Fund Managers Limited
- Deputy Chairman, NZCEO Limited
- Deputy Chairman, NZCEO Finance Limited
- Director, Gamma Investments Limited
- Director, Granwood Holdings Limited
- Director, Grow Dunedin Steering Group
- Director, Heifer Ranching NZ Limited
- Director, Mastah Investments Limited
- Director, Otago Rescue Helicopter Limited
- Director, TracPlus Trustee Limited
- Director, FMO Registry Services Limited
- Director, Forsyth Barr Group Limited
- Director, Forsyth Barr Limited
- Trustee, Otago Rescue Helicopter Trust
- Trustee, William Sheriff Charitable Trust

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
Retired 27 September 2019

- 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 Scott A Mason ▪ **F.C.A., CM.Inst.D., B Com., BA., cBA., DipGradBus (Disp Res), AAMINZ**
Non-Executive Director

Date appointed 1 October 2019

- Managing Partner, Findex Otago
- Director, Numerous Trustees Companies (Findex)
- Director, Innovation Learning Holdings Limited
- Director, Bison Group Limited
- Director, Otago Angels / OPAL Limited
- Director, Severely Limited
- Director, Financially Limited
- Director, Smith Brothers Holdings Limited (and ancillary entities)
- Chairman, NomosOne (and subsidiaries)
- Director, Cloud Cannon Limited
- Director, Banger Limited
- Trustee, StartUp Dunedin Trust
- Deputy Chair, CAANZ Tax Advisory Group
- Director, Amelda Holdings Limited
- Director, Andy Bay Investments Limited
- Director, Blue Chip Nominees Limited
- Director, Blenheim Road Properties Limited
- Director, Invercargill Property Investments Limited
- Director, WHK Services (South Island) Limited
- Director, Aquarius TM Limited
- Director, Southern Motor Group Limited

Ms K Alison Posa ▪ **BMS(Hons), CA. GAICD, CM.Inst.D., AICD**
Non-Executive Director

Dated appointed 1 October 2019

- Director, Asurequality Limited

Mr Mark I Shirley ▪ **M.HSc., BPhty**
Intern Director

Dated appointed 1 December 2019

- Director, Southern Rehab Limited
- Shareholder, Habit Group

TREND STATEMENT

FOR THE YEAR ENDING 30 JUNE 2020

(All $,000 unless stated otherwise) **FINANCIAL PERFORMANCE**	**2020**	**2019**	**2018** *(Restated)*[1]	**2017**	**2016**
Domestic revenue	9,553	11,831	13,043	12,756	12,335
Export revenue	37,085	46,785	39,421	26,465	33,861
Other revenue	576	432	1,513	869	656
Total revenue	**47,214**	**59,048**	**53,977**	**40,090**	**46,852**
Percentage increase	(20.0%)	9.4%	34.6%	(14.4%)	22.0%
Inventory movement	(43)	86	237	869	(224)
Total expenses	**45,926**	**48,484**	**45,770**	**28,857**	**35,341**
Percentage increase	(5.2%)	5.9%	37.5%	(18.3%)	13.7%
Operating surplus	**1,245**	**10,650**	**8,444**	**12,102**	**11,287**
New Zealand carbon credits	4,861	4,247	6,467	6,182	1,462
Gain in fair value of forestry asset	11,628	20,333	19,672	9,629	9,524
Write down value of land	(69)	(462)	(1,528)	(389)	-
Impairment charges	-	-	-	-	-
Surplus after non-operating items and before taxation	**17,665**	**34,768**	**33,055**	**27,524**	**22,273**
Income tax	**4,987**	**9,536**	**9,142**	**7,420**	**6,252**
TOTAL SURPLUS AFTER TAXATION	**12,678**	**25,232**	**23,913**	**20,104**	**16,021**

SHAREHOLDERS' FUNDS

Shareholders' funds	201,816	184,759	160,343	139,058	120,901
Operating cash flow	5,659	13,578	15,353	12,748	11,787
Dividends paid - normal	4,500	6,500	5,000	4,500	4,500
Dividends paid - special	-	1,500	3,000	1,500	2,000
Value of forest	169,150	164,010	150,172	136,333	123,802
Surplus after tax to shareholders funds	6.28%	13.66%	14.91%	14.45%	13.25%
Proprietorship ratio	72.12%	71.60%	70.03%	67.36%	66.11%
Net forest revaluation	8,374	14,640	13,585	9,629	9,524
Net Land Revaluation	2,796	4,735	2,277	3,584	4,842

FOREST STATISTICS *(Whole numbers)*

Forest harvested (m^3)	310,100	336,374	303,922	277,201	306,452
Volume traded (m^3)	27,093	31,967	44,014	64,455	71,364
Forest planted (ha)	970	765	739	579	487
Total forest (ha)	19050	18,143	17,285	16,795	16,469
Forest purchased (ha)	-	38	244	347	156

[1] **Refer Note 2**

STATEMENT OF **COMPREHENSIVE INCOME**

FOR THE YEAR ENDING 30 JUNE 2020

	NOTE		2019 *$,000*
Revenue	3	52,040	63,240
Financial income		36	55
Gain/(loss) in fair value of forestry asset	5	11,628	20,333
TOTAL REVENUE		**63,704**	**83,628**
INVENTORY MOVEMENT		**(43)**	**86**
LESS EXPENSES:			
Contractors		18,672	18,623
Depreciation and amortisation expense		527	380
Directors fees		145	152
Employee expenses		1,537	1,536
Financial expenses		1,852	1,340
Other expenses	4	23,262	26,915
Total expenses		**45,996**	**48,946**
Profit before tax		**17,665**	**34,768**
Income tax expense	13	4,987	9,536
NET PROFIT AFTER TAX		**12,678**	**25,232**
OTHER COMPREHENSIVE INCOME:			
Gains/(loss) on cash flow hedges taken to equity		(6)	555
Tax effect of cash flow hedges taken to equity		2	(155)
Increase in land revaluation		2,875	4,734
Tax effect of land revaluation taken to equity		(78)	-
Carbon credits revaluation above initial recognition taken to equity		8,454	2,846
Tax effect of carbon taken to equity		(2,367)	(796)
OTHER COMPREHENSIVE INCOME FOR THE YEAR		**8,879**	**7,184**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**21,557**	**32,416**

[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 2020

	NOTE	2020 $,000	2019 $,000
Equity at beginning of year		**184,759**	**160,343**
Total comprehensive income for the year		21,557	32,416
Distribution to owners Dividends		(4,500)	(8,000)
EQUITY AT END OF YEAR		**201,816**	**184,759**

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 2020

EQUITY	NOTE	2020 $,000	2019 $,000
Share Capital	8	25,691	25,691
Forestry reserve	9	84,495	82,027
Land revaluation reserve	9	33,081	30,285
Hedging reserve	9	(399)	(394)
Carbon credit reserve	9	8,019	5,697
Retained earnings	10	50,929	41,453
TOTAL EQUITY		**201,816**	**184,759**

LIABILITIES

CURRENT LIABILITIES			
Trade and other payables		3,504	3,099
Other current liabilities		463	274
Employee Provisions		170	148
Derivative financial instruments	11	399	369
Provision for taxation		3,670	5,496
Lease liabilities		110	-
Subvention payable		-	501
Total current liabilities		**8,316**	**9,887**
NON-CURRENT LIABILITIES			
Derivative financial instruments	11	261	264
Term borrowings	12	17,000	13,600
Lease liabilities		479	-
Other liabilities		-	320
Net deferred tax liability	14	51,962	49,198
Total non-current liabilities		**69,704**	**63,382**
TOTAL LIABILITIES		**78,018**	**73,269**
TOTAL EQUITY PLUS LIABILITIES		**279,834**	**258,028**

[1] **Refer Note 2**

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

ASSETS	NOTE	2020 $,000	2019 $,000
CURRENT ASSETS			
Cash and cash equivalents		2,143	874
Trade and other receivables		3,333	4,838
Derivative financial instruments	11	33	32
Inventories – raw materials		1,642	1,685
Prepayments		137	126
GST refund		280	313
Assets held for sale	17	1,770	-
Deposit on property purchase		105	433
Total current assets		**9,443**	**8,301**
NON-CURRENT ASSETS			
Derivative financial instruments	11	73	53
Property, plant and equipment	7	69,165	58,759
Forestry assets	5	169,150	164,010
Investments		1	2
Intangibles – computer software		32	9
Intangibles – New Zealand carbon credits	6	31,970	26,894
Total non-current assets		**270,391**	**249,727**
TOTAL ASSETS		**279,834**	**258,028**

For and on behalf of the Board of Directors:

J F Gallaher
Chairman

DATE: 25.9.20

T J Mepham
Director

DATE: 25.9.20

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 2020

	NOTE	2020 $,000	2019 $,000
CASH FLOWS FROM OPERATING ACTIVITIES			
CASH WAS PROVIDED FROM			
Receipts from customers		49,540	57,350
Interest received		35	30
		49,575	**57,380**
CASH WAS DISBURSED TO			
Payments to suppliers and employees		35,055	37,292
Interest paid		507	578
Income tax/subvention		6,995	5,133
Effect of exchange rate changes		1,360	799
		43,917	**43,802**
NET CASH INFLOWS/(OUTFLOWS) FROM OPERATING ACTIVITIES	**16**	**5,658**	**13,578**

CASH FLOWS FROM INVESTING ACTIVITIES			
CASH WAS PROVIDED FROM			
Carbon credits sold		8,240	7,215
Sale of property, plant and equipment		517	19
		8,757	**7,234**
CASH WAS DISBURSED TO			
Purchase of property, plant and equipment		9,507	9,007
Purchase of Forest Assets		2,441	2,365
		11,948	**11,372**
NET CASH INFLOWS/(OUTFLOWS) FROM INVESTING ACTIVITIES		**(3,191)**	**(4,138)**

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

CASH FLOWS FROM **FINANCING ACTIVITIES**	**2020** *$,000*	**2019** *$,000*
CASH WAS PROVIDED FROM		
Proceeds from borrowings	8,900	7,300
	8,900	**7,300**
CASH WAS DISBURSED TO		
Repayment of borrowings	5,500	8,800
Lease repayments	98	-
Dividends paid	4,500	8,000
	10,098	**16,800**
NET CASH INFLOWS/(OUTFLOWS) FROM FINANCING ACTIVITIES	**(1,198)**	**(9,500)**
Net Increase in Cash Held	**1,269**	**(60)**
Cash and short term deposits at the beginning of the year	874	934
CASH AND SHORT TERM DEPOSITS AT THE END OF THE YEAR	**2,143**	**874**

COMPOSITION OF CASH		
Cash and short term deposits	2,143	874

ACCOUNTING POLICY

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDING 30 JUNE 2020

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 25th September 2020.

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.

NZ IFRS 16: Leases (Effective date: periods beginning on or after 1 January 2019)

NZ IFRS 16 replaces NZ IAS 17. The effective date of this new standard is 1 January 2019 and the Company has applied this standard for the first time in this current financial year.

The Company has applied NZ IFRS 16 using the modified retrospective method. There is no restatement of comparative financial information or impact on opening equity, the comparative period continues to be reported under NZ IAS 17.

As a lessee, the Company previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all the risks and rewards incidental to ownership of the underlying asset to the Company. Under NZ IFRS 16, the Company recognises Right-of-Use assets and lease liabilities on balance sheet for most leases.

At transition date (1 July 1019), lease liabilities were measured at the present value of the remaining lease payments, discounted at the Company's incremental borrowing rate. As at 1 July 2019, this was 3.95% Right-of-Use assets were measured at an amount equal to the lease liability. The Company applied this approach to all leases.

The Right-of-Use asset is subsequently depreciated using the straight-line method over the shorter of the estimated useful life of the Right-of-Use asset or the remaining estimated lease term. The estimated useful lives of Right-of-Use assets are determined on the same basis as those of property, plant and equipment. The impact on the statement of comprehensive income is that costs previously recorded as operating expenses will be recorded as depreciation and finance costs.

The following practical expedients were used when applying NZ IFRS 16 to leases previously classified as operating leases under NZ IAS 17:

- Applied a single discount rate to a portfolio of leases with similar characteristics; and
- Applied the exemption not to recognise Right-of-Use assets and liabilities for leases with less than 12 months of lease term remaining.

On transition to NZ IFRS 16, the Company recognised Right-of-Use assets of $537,807 and a corresponding lease liability of $537,807.

The impact of the profit and loss statement for the year ended 30 June 2020 was an increase in depreciation of $86,642 an increase in interest of $20,717 and a decrease in operating costs of $98,318. The overall impact on profit and loss was a $9,041 increase in profit.

There is no significant impact on banking covenants or other reporting requirements.

Please refer to **NOTE 20** for further details on lease accounting.

	2020 $,000
Operating lease commitments as at 30 June 2019	624
Present value impact of incremental borrowing rate at 1 July 2019	(86)
DISCOUNTED OPERATING LEASE COMMITMENTS AS AT 1 JULY 2019	**536**

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.

Government Grants

Government grants are recognised when there is a reasonable assurance that the Company has complied with the conditions attached to them and that the grants have been received. Government grants are recognised in the other revenue as part of revenue in the Statement of Comprehensive Income. All conditions of the grants have been met.

3. REVENUE

	As at 30 June 2020 $,000	As at 30 June 2019 $,000
Sales revenue	46,638	58,810
New Zealand carbon credits	4,862	4,247
Gain on sale of property, plant and equipment	24	9
Other revenue	516	174
	52,040	**63,240**

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.

4. OTHER EXPENSES

	As at 30 June 2020 $,000	As at 30 June 2019 $,000
Audit fees - for audit of financial statements	48	36
Donations	28	10
Loss on sale of property, plant and equipment	49	4
Rental expense on operating leases	3	76
Research expenditure	170	214
Cost of bush applied	9,441	8,860
Shipping costs	8,446	10,418
Write down of land value	69	462
Expenses relating to short term & low value leases	21	-
Subvention	-	501
Other operating expenses	6,334	6,334
	26,915	**26,915**
Write down of land value:		
Impairment reversal	671	261
Write down of land value	(740	(723)
NET WRITE DOWN	**(69)**	**(462)**

5. FORESTRY ASSETS

	As at 30 June 2020 $,000	As at 30 June 2019 $,000
Balance at the beginning of the year	164,010	150,172
ADD		
Costs capitalised in establishing forests during the year	2,953	2,275
Increase in forest from acquisition	-	90
Forestry revaluation	11,628	20,333
LESS		
Cost of trees harvested at fair value	(9,441)	(8,860)
	169,150	**164,010**
Gains/(losses) arising from changes in fair value less point of sale costs;		
attributable to physical changes	11,511	7,224
attributable to price changes	117	13,109
	11,628	**20,333**

The Directors of City Forests Limited revalue its forestry assets annually at 30 June 2020.

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. The treatment of carbon in the forest valuation has changed in the 2020 year. Previously the net present value of one carbon sequestration was calculated. From 2020 onwards a value has been assigned to the difference between the units claimed to date and the level of safe or liability free carbon that the company can claim.

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% (2019 6.0%).

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 +$9.82 mil / -$8.93 mil. A 10% increase or decrease in assumed log prices would change the valuation by +$15.45 mil / -$15.43 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 2020 the Company owned stands of trees on 19,050 hectares of a total land holding (including lease, Joint Venture & Forestry Right) of 23,731 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.

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.

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.

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 2,685,116 Post-89 derived NZU's, being the carbon sequestered by these forests during the 2008 to 2020 calendar years. There were 350,000 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 2020, 996,027 units were unsold (2019 1,164,312). 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 2020 *$,000*	As at 30 June 2019 *$,000*
New Zealand carbon credits	31,970	26,894

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

2020	LAND OTHER VALUATION	FOREST LAND VALUATION	BUILDING COST	ROADS BRIDGES COST	PLANT EQUIPMENT COST	MOTOR VEHICLES COST	OFFICE EQUIPMENT COST	WORK IN PROGRESS COST	RIGHT OF USE ASSET	TOTAL
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Cost or Valuation										
Balance at beginning of year	755	54,072	1,928	8,140	1,620	709	231	2	-	67,457
Increase through acquisition	-	8,607	151	627	51	229	12	-	669	10,346
Purchases/revaluation	48	2,827	-	-	-	-	-	-	-	2,875
Disposals	(90)	-	(344)	-	(133)	(92)	(72)	-	-	(731)
Transfer to assets held for sale	(713)	-	(1,089)	-	-	-	-	-	-	(1,802)
Balance at end of year	**-**	**65,506**	**646**	**8,767**	**1,538**	**846**	**171**	**2**	**669**	**78,145**
Accumulated depreciation/impairment										
Balance at beginning of year	-	2,309	187	4,444	1,116	466	176	-	-	8,698
Depreciation	-	-	40	203	68	94	21	-	88	514
Impairment	-	69	-	-	-	-	-	-	-	69
Disposals	-	-	(8)	-	(110)	(82)	(69)	-	-	(269)
Transfer to assets held for sale	-	-	(32)	-	-	-	-	-	-	(32)
	-	**2,378**	**187**	**4,647**	**1,074**	**478**	**128**	**-**	**88**	**8,980**
BALANCE AT END OF YEAR	**-**	**63,128**	**459**	**4,120**	**464**	**368**	**43**	**2**	**581**	**69,165**
Comprising – Cost	-	-	459	4,120	464	368	43	2	581	6,037
– Valuation	-	63,128	-	-	-	-	-	-	-	63,128

Telfer Young provided valuations for specific land purchased in the 2019 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 2020 was $2,875k (2019 $4,735k). All other asset classes are shown at cost.

The uncertainty related to the COVID-19 pandemic is impacting the real estate market. The value assessed for the Company's forestry land assets has been reported on the basis of "significant market uncertainty", meaning less certainty and a higher degree of caution should be applied. The opinion of value has been determined at the valuation date based on a certain set of assumptions used by the valuer, however these could change significantly and unexpectedly over a relatively short period of time.

The company has had its land assets independently valued at 30 June 2020 by Morice & Co using the Fair Value approach. This method is consistent with the previous period and the market values recommended by Morice & Co are incorporated into the financial statements. The land is valued at the component level and the valuation methodology takes into account the key factors impacting land value such as location, productivity, size, ETS status, altitude, contour, local authority zoning and development potential relative to market evidence.

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.

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
Purchases	755	6,016	1,263	254	172	90	44	(26)	13,302
Revaluation	-	4,734	-	-	-	-	-	-	(133)
Disposals	-	-	-	-	-	(46)	(87)	-	-
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)
	-	**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

8. EQUITY - SHARE CAPITAL

	As at 30 June 2020 $,000	As at 30 June 2019 $,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 2020 $,000	As at 30 June 2019 $,000
Balance at beginning of the year	82,027	72,514
Transfer from retained earnings	2,468	9,513
BALANCE AT THE END OF THE YEAR	**84,495**	**82,027**

	As at 30 June 2020 $,000	As at 30 June 2019 $,000

Hedging reserve

Balance at beginning of the year	(394)	(794)
Gain/(loss) in fair value movement in derivatives	(5)	400
BALANCE AT THE END OF THE YEAR	**(399)**	**(394)**

Land Revaluation Reserve

Balance at beginning of the year (restated)[1]	30,285	25,550
Forestry land revaluations	2,874	4,735
Less deferred taxation	(78)	-
BALANCE AT THE END OF THE YEAR	**33,081**	**30,285**

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	5,697	8,411
Gain in carbon credits above initial recognition value	7,336	1,990
Less transferred to retained earnings	(5,014)	(4,704)
BALANCE AT THE END OF THE YEAR	**8,019**	**5,697**

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 2020 $,000	As at 30 June 2019 $,000
Balance at the beginning of the year	**41,453**	**28,971**
Net profit/(loss) for the year	12,678	25,232
Dividend distributions	(4,500)	(8,000)
Transfer to forestry reserve	(2,468)	(9,513)
Transfer from carbon credit reserve	3,766	4,763
BALANCE AT THE END OF THE YEAR	**50,929**	**41,453**

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.

For hedges of highly probable forecast sales and purchases, as the critical terms (i.e. the notional amount, life and underlying) of the foreign exchange forward contracts and their corresponding hedged items are the same, the company performs a qualitative assessment of effectiveness and it is expected that the value of the forward contracts and the value of the corresponding hedged items will systematically change in opposite direction in response to movements in the underlying exchange rates. The company uses the hypothetical derivative method for the hedge effectiveness assessment and measurement of hedge ineffectiveness. This is a simplified approach because the currency of the exposure and hedging instruments perfectly match and the company excludes from the designation the foreign currency basis spread.

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

	Average exchange rate 2020	*Foreign currency 2020 FC'000*	*Contract value 2020 NZD'000*	*Fair value 2020 NZD'000*	*Fair value 2019 NZD'000*
Cashflow hedges Sell USD					
Current	0.669	5,600	8,376	(304)	(336)
Non current	0.646	9,200	14,249	(30)	34
				(334)	**(302)**

2020 Financial Assets	<1 yr	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	5 yrs	TOTAL
Trade and other receivables	3,333	-	-	-	-	-	3,333
Derivative financial instruments	33	73	-	-	-	-	106
	3,366	**73**	**-**	**-**	**-**	**-**	**3,439**

Financial Liabilities							
Trade and other payables	4,137	-	-	-	-	-	4,137
Derivative financial instruments	399	261	-	-	-	-	660
Borrowings	-	1,551	1,205	2,025	934	11,285	17,000
	4,536	**1,812**	**1,205**	**2,025**	**934**	**11,285**	**21,797**

2019	<1 yr	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	5 yrs	TOTAL
Financial Assets							
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**

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 of the financial instrument and the contractual cash flow characteristics thereof 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.

The company's risk management policy is to hedge a portion of its estimate foreign currency exposure in respect of forecast sales and purchases over the following 60 month period. The company uses forward exchange contracts to hedge its current risk, most with the maturity of less than 16 months from the reporting date. These contracts are generally designated as cash flow hedges.

The following parameters are used:

0-8 months	40-100%
9-16 months	25-75%
17-24 months	0-50%
25-60 months	0-33%

Apart from investments and derivative 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 measure 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 and 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 identifies 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 therefore they have been excluded from this calculation.

On that basis, the loss allowance as at 30 June 2020 (on adoption of IFRS 9) was determined as follows:

30 June 2020	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%	0.3%	0.2%	0.33%	
Gross carrying amount – trade receivables	1,458	405	-	2	2,142
Loss allowance	-	2	-	-	2

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

	As at 30 June 2020 *$,000*	As at 30 June 2019 *$,000*
Maturing in less than one year	-	-
Maturing between one and five years	3,000	3,000
Maturing after five years	-	-
	3,000	**3,000**

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 0.6419.
- A parallel shift of +1% / -1% in the NZD market interest rate from the year end 90 day BBBR of 0.28%.

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

	Carrying Amount *$'000*	Interest rate				Foreign exchange			
		-100bp		*+100bp*		*-10%*		*+10%*	
		Equity	Profit	Equity	Profit	Equity	Profit	Equity	Profit
Financial Assets									
Derivatives Currency Hedges – Sell USD	22,625	-	-	-	-	-	2,562	-	(2,096)
Other Financial Assets	1,407	-	-	-	-	-	156	-	(127)
Financial Liabilities									
Interest rate swaps	3,000	(46)	-	47	-	-	-	-	-
Total increase/(decrease)		**(46)**	**-**	**47**	**-**	**-**	**2,718**	**-**	**(2,223)**

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).

	2020				2019			
	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	-	106	-	106	-	85	-	85
New Zealand carbon credits	31,970	-	-	31,970	26,894	-	-	26,894
	31,970	**106**	**-**	**32,076**	**26,894**	**85**	**-**	**26,979**
Financial Liabilities								
Derivative financial liabilities	-	660	-	660	-	633	-	633
	-	**660**	**-**	**660**	**-**	**633**	**-**	**633**

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

ACCOUNTING POLICY CONTINUED

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 2020 *$,000*	As at 30 June 2019 *$,000*
Dunedin City Treasury loan facility	17,000	13,600
	17,000	13,600

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

The effective rate of interest for the Dunedin City Treasury Limited loan facility, ranged between 3.50% and 4.39% (2019 3.95% – 6.085%).

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	17,000	13,600
	17,000	13,600

The repayment period on the term borrowings is as follows:

Current	-	-
Non Current	17,000	13,600
	17,000	**13,600**

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.

13. INCOME TAX

	As at 30 June 2020 $,000	As at 30 June 2019 $,000
Net profit from continued operations	17,665	34,768
Profit before income tax	**17,665**	**34,768**
Tax thereon at 28%	4,946	9,735
PLUS/(LESS) THE TAX EFFECT OF DIFFERENCES		
Expenditure not deductible for taxation	56	155
Under / (over) tax provision in prior years	(2)	7
Losses utilised from Dunedin Stadium Properties Ltd	-	(361)
Reversal of deferred tax liability on disposal of buildings & land	(13)	-
Tax effect of differences	**41**	**(199)**
Tax expense	**4,987**	**9,536**
TAX EXPENSE MADE UP AS FOLLOWS:		
Continued operations	4,987	9,536
	4,987	**9,536**
Effective tax rate	28.23%	27.6%
REPRESENTED BY		
Current tax provision	4,676	6,659
Deferred tax provision	313	2,870
Under / (over) tax provision in prior years	(2)	7
	4,987	**9,536**

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

2020	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	317	78	(28)	-	374	374
Employee provisions	(75)	-	10	(65)	-	(65)
Forest	31,900	-	959	-	32,859	32,859
Capitalised forestry costs	9,829	-	327	-	10,156	10,156
Revaluations of foreign exchange contracts	(85)	(8)	-	(93)	-	(93)
Revaluations of interest rate swaps	(68)	6	-	(62)	-	(62)
Revaluation of carbon credits	7,377	2,367	(946)	-	8,798	8,798
Other	3	-	(8)	(5)	-	(5)
Balance at the end of the year	**49,198**	**2,443**	**321**	**(225)**	**52,187**	**51,962**

2019	$'000	$'000	$'000	$'000	$'000	$'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**

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 2020 *$,000*	As at 30 June 2019 *$,000*
Purchases of goods and services from the Dunedin City Council:		
Rates and property rentals	29	15
Other	3	12
	32	**27**
Dunedin City Holdings Limited		
Managing Services	50	50
Dividends	4,500	8,000
	4,550	**8,050**
Delta Utility Services Limited		
Roading & Earthmoving Services	540	614
Payable to Delta Utility Services Limited	62	49
Subvention payments/tax compensation		
Dunedin Stadium Property Limited	1,016	1,700
Dunedin Railways Limited	-	30
Aurora Energy Limited	3,351	1,099
Dunedin City Holdings Limited	120	486
Delta Utility Services Limited	759	374
Dunedin City Council	1,248	319
	6,494	**4,008**
Subvention payable: Dunedin Stadium Property Limited	-	501
Loan from Dunedin City Treasury Limited as at balance date	17,000	13,600
Loans received during the year	8,900	7,300
Loans paid during the year	5,500	8,800
Interest due to Dunedin City Treasury Limited as at balance date	36	33
Interest paid during the year	471	541
Interest rebate received	18	25
Net interest	453	516

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 2020 *$,000*	Year ended 30 June 2019 *$,000*
Mr M C Horne had related party interests with the following organisations during the year.		
Director, Palmers Mechanical Limited: *Services purchased from Palmers Mechanical Limited*	44	64
Director, Deloitte: *Services purchased from Deloitte*	125	179

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

Payable to Palmers Mechanical Ltd	22	11
Payable to Deloitte	9	5

Compensation of key management personnel

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

Salaries and Short-term benefits	1,080	1,021
Post-Employment benefit	-	-
	1,080	**1,021**

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 2020 *$,000*	As at 30 June 2019 *$,000*
Net gain for the year	12,678	25,232
Items Not Involving Cash Flows		
Depreciation and loss on sale	576	383
Depletion of forest (cost of bush)	9,441	8,860
Deferred tax	319	2,876
Depreciation recovered/capital gains	(104)	(9)
Forestry revaluation	(11,628)	(20,333)
Allocation of carbon credits/revaluation carbon credits/surrender	(4,862)	(4,238)
Write down value of land	69	462
Interest portion of lease liability	50	-
OTHER NON-CASH ITEMS		
Impact of Changes in Working Capital Items		
(Increase)/Decrease in accounts receivable	1,505	(2,160)

	As at 30 June 2020 $,000	As at 30 June 2019 $,000
(Increase)/Decrease in inventories	(469)	(385)
(Increase)/Decrease in prepayments	(11)	14
(Increase)/Decrease in tax refund due	(1,826)	2,059
Increase/(Decrease) in accounts payable	225	799
Increase/(Decrease) in other current liabilities	276	18
Increase/(Decrease) in other current assets	(581)	-
Net cash inflows/(outflows) from operating activities	**5,658**	**13,578**

17. ASSETS HELD FOR SALE

	As at 30 June 2020 $,000	As at 30 June 2019 $,000
Freehold land held for sale	713	-
Other assets reclassified as held for sale	1,057	-
	1,770	**-**

18. CAPITAL EXPENDITURE COMMITMENTS

As at 30 June 2020 the Company has capital commitments of $945,000 (2019 $nil).

19. CONTINGENT ASSETS OR LIABILITIES

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. As at 30 June 2020 the value of the potential liability in future years is unknown due to the variations in the harvesting schedule, carbon reporting periods and the value of carbon to surrender. The Directors have requested future work be done in this area so potential liabilities can be ascertained (2019 $nil).

20. LEASE COMMITMENTS

ACCOUNTING POLICY

The Company has changed its accounting policy for leases and has adopted NZ IFRS 16 Leases.

The Company leases the office and some equipment. Rental contracts vary depending on the type of asset being leases. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Contracts may contain both lease and non-lease components. The Company allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices.

Leases are recognised as a Right-of-Use asset and a corresponding liability at the date at which the leased asset is available for use by the Company. Each lease payment is allocated between the liability and finance cost. The cost is charged to the Statement of Comprehensive Income over the lease period to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The Right-of-Use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

(i) Measurement basis

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- Fixed payments (including in-substance fixed payments)
- Amounts expected to be payable by the lessee under residual value guarantees
- The exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and

ACCOUNTING POLICY CONTINUED

- Payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Company, the lessee's incremental borrowing rate is used. The incremental borrowing rate is the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the Right-of Use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Company where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since their-party financing was received.

The Company is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the Right-of-Use asset.

Lease payments are allocated between principal and finance cost. The finance cost is charged to the Statement of Comprehensive Income over the lease period to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-Use assets are measured at cost comprising the following:

- The amount of the initial measurement of lease liability
- Any lease payments made at or before the commencement date
- Any initial direct costs, and
- Restoration costs.

Right-of-Use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Company is reasonably certain to exercise a purchase option, the Right-of-Use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as a expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets include IT equipment and small items of office furniture.

(ii) Accounting policies applied until 30 June 2019

Until 30 June 2019, leases in which a significant portion of the risks and rewards or ownership are retained by the lessor were classified as operating lease. Payments made under operating leases (net of any incentives received from the lessor) were charged to the Operating Expenses component of the Statement of Comprehensive Income on a straight line basis over the period of the lease.

21. LEASE LIABILITIES

Lease Liability	**2020** *$,000*	**2019** *$,000*
Liabilities recognised on Initial Transition	538	-
Additions	129	-
Lease repayments	(98)	-
Interest charged	21	-
	590	**-**

Split by:		
Current Liability	110	-
Non-current Liability	480	-
	590	**-**

	< 1 year	*1-2 years*	*2-3 years*	*4+years*	**TOTAL**
The maturity of the Lease Liability is as follows:	110	110	110	260	**590**

22. RECONCILIATION OF LIABILITIES FROM FINANCING ACTIVITIES

2020	2020 $'000	Cashflow $'000	*Non cash changes* Capitalised Interest $'000	Foreign Exchange Movement $'000	Fair Value Changes $'000	2020 $'000
Long term borrowings	13,600	3,400	-	-	-	17,000
Derivative financial instruments	264	-	-	-	(3)	261
Short term derivative financial instruments	369	-	-	-	30	399
	14,233	**3,400**	**-**	**-**	**27**	**17,660**

2019	2019 $'000	Cashflow $'000	*Non cash changes* Capitilised Interest $'000	Foreign Exchange Movement $'000	Fair Value Changes $'000	2019 $'000
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**

23. COVID-19

On March 11, 2020 the World Health Organisation declared the outbreak of COVID-19 (a novel Coronavirus) a pandemic. Two weeks later, on 26 March, New Zealand increased it's COVID-19 alert to level 4 and a nationwide lockdown commenced. During the Level 4 lockdown City Forests ceased all forest operations. New Zealand moved to Level 3 on Monday 27 April and the company was able to recommence forest operations. The company was able to send an export shipment of stock at wharf during Level 4 lockdown to clear port space for essential services and recommenced production and customer deliveries under level 3. The company's results were impacted for the month of April, where both domestic and export sales were negatively impacted, resulting in a drop in revenues. Since then the company has been able to increase harvesting to catch up a proportion of the lost production. The immediate post level 4 period provided increased prices for the company's logs however this has now moderated close to budget levels.

The company was able to reduce costs during Lockdown Level 4 to partly offset the drop in revenue for this period and has also received support from the New Zealand Government by way of the wage subsidy in March 2020. The Directors revised the 2020 financial forecast during Covid-19 to access the financial impact on the company.

The Directors are aware that the company may be impacted financially by Covid-19 over the coming period and this has been incorporated into future budgets and strategy. Significant judgements in the 2021 budget are that the company is able to continue harvesting and sales of product to domestic and export markets. Evidence to date; being ongoing sales orders from domestic and export customers within the bounds of historical market price fluctuations and normal customer credit arrangements support these assumptions. Based on the budget for the 12 months ended 30 June 2021 the Company will be able to meet its obligations to pay its debts as they fall due. This is supported by trading evidence subsequent to balance date. In the event that the risk situation deteriorates unexpectedly sufficient debt facility headroom is available to maintain the Company for a period of disrupted trading conditions.

COVID-19 has impacted the fair values of the interest rate derivatives through the drop in interest rates.

24. EVENTS SUBSEQUENT TO BALANCE DATE

No significant events have occurred subsequent to balance date (2019 $nil).

STATEMENT OF SERVICE PERFORMANCE

FOR THE YEAR ENDED 30 JUNE 2020

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 11.6%.
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 29th June 2020. 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; 6.1%, 5.8% and 6.2% 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. Five new property purchases total 1195ha 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 Daiken Southland received 9.9% 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: 29.5% spread across 21 customers. China: 70.5% spread across 7 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. 350,000 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 33.7% by volume. (28.9% last year). Export log sales were 66.3% 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.
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 310,100m³ including billet wood. This is 93% of the sustainable yield of 333,000m³. Forecast harvest levels in the long term strategic plan for the next 3 years are; 378,385m³, 333,936m³ and 333,936m³. All are within +/- 20% of the sustainable yield.

	PERFORMANCE TARGET	ACHIEVEMENT
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 475 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 2019 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 review of Company pruning strategy was conducted during the year. Percentage Pruned by Forest is: Silverpeaks; 61% Flagstaff; 83% Waipori; 28% Tokoiti; 64% **TOTAL; 57%**
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	The implementation of research outcomes into operational management plans will be tracked.	Management plans are updated to reflect current management practices which are informed by research outcomes, i.e. target tree stocking rates per hectare to optimise site carrying capacity.
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.
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: 16,932m³ Craigpine: 7,868m³ Niagara: 1,488m³ Hollows: 8,983m³ Gorton's: 4,387m³ Otago Lumber: 7,705m³ Daiken: 34,247m³
7c	The volume of wood supplied to Bioenergy uses will be tracked and reported.	Bioenergy: 18,819m³
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 6.4 lost time injuries per 1,000,000 hours. (0.0 last year)

	PERFORMANCE TARGET	ACHIEVEMENT
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.	84 tests were conducted during the period. One positive random test was recorded, being 1.19%.
8c	Maintain Forest Stewardship Council® Certification of the Company's forests.	Forest Stewardship Council® Certification was maintained following audit in 2019.
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 and $5000 to Dunedin Wildlife Hospital 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 7 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 2020 one modern apprentice employed in Company operations.
10c	There will be "nil" instances of non-compliance with the Company's EEO policy.	There were no instances of non-compliance with the Company's EEO policy.
11a	The Company's forest management plans will have a section allocated to Recreation and Educational use of the forests.	The Company's forest management plans have sections allocated to recreation and education.
11b	The Company will maintain a Forest Access Permit system, track and report on recreational use statistics.	Recreation use is monitored through forest access permit issuance. 347 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 20.3 km of walking tracks and 23.3km of mountain bike tracks in its forests.
12a	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 1195ha of land during the period.
12b	Consult with the shareholder in a timely manner on DCHL Group strategic or operational matters which could compromise the Council's community outcomes.	No significant issues arose that would compromise Council community outcomes, however communication channels were maintained with the shareholder such that the shareholder is well informed of Company activities.
12c	Report to the shareholder within 24 hours of the Board becoming aware of any substantive matter, including any matter likely to generate media coverage.	A number of media interactions occurred throughout the period and the shareholder and board were communicated to within 24 hours informing them of the matter.

	PERFORMANCE TARGET	ACHIEVEMENT
12d	Living wage: The Company will disclose in its Annual Report the proportion of its workforce receiving the living wage (as calculated by the New Zealand Family Centre Social Policy Unit).	All employee renumeration is greater than the living wage.

	PERFORMANCE TARGET	*$'000*	ACHIEVEMENT	*$'000*
13a	Profit before income tax	17,181	Profit before income tax	17,665
13b	Profit after income tax	12,362	Profit after income tax	12,660
13c	Shareholders' equity	178,278	Shareholders' equity	201,876
13d	Normal dividend	6,500	Normal dividend	4,500
13e	Special dividend	-	Special dividend	-
13f	Operating cashflow	10,431	Operating cashflow	5,658
13g	Capex	4,300	Capex	12,030
13h	Term debt	14,400	Term debt	17,000

Audit New Zealand
Mana Arotake Aotearoa

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 2020

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

Opinion

We have audited:

- the financial statements of the Company on pages 18 to 55, that comprise the statement of financial position as at 30 June 2020, 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 56 to 59.

In our opinion:

- the financial statements of the Company on pages 18 to 55:
  - present fairly, in all material respects:
    - its financial position as at 30 June 2020; 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's equivalents to International Financial Reporting Standards; and
- the statement of service performance of the Company on pages 56 to 59 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 2020.

Our audit was completed on 25 September 2020. This is the date at which our opinion is expressed.

The basis for our opinion is explained below, and we draw attention to the impact of Covid-19 on the Company. In addition, we outline the responsibilities of the Board of Directors and our responsibilities relating to the financial statements and the performance information, we comment on other information, and we explain our independence.

Emphasis of matter – Impact of Covid-19

Without modifying our opinion, we draw attention to the disclosures about the impact of Covid-19 on the Company as set out in note 23 to the financial statements. We draw specific attention to the following matter due to the significant level of uncertainty caused by Covid-19:

- ***Forestry land***

  Note 7 on page 32 describes the significant uncertainties highlighted by the valuer related to estimating the fair values of the Company's forestry land.

Basis for our opinion

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- We evaluate the appropriateness of the reported statement of service performance 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 4 to 17, but does not include the financial statements and the statement of service performance, and our auditor's report thereon.

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

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

Independence

We are independent of the Company in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1: International 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.

Rudie Tomlinson
Audit New Zealand
On behalf of the Auditor-General
Dunedin, New Zealand

NOTES


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

City Forests

www.cityforests.co.nz