

# ANNUAL 2021 REPORT



## QUICK FACTS

### Community owned, city asset

City Forests is owned by the City of Dunedin, Ōtepoti and includes more than 19,300ha of productive forests, with around 8.6 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 \$79.3M 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.

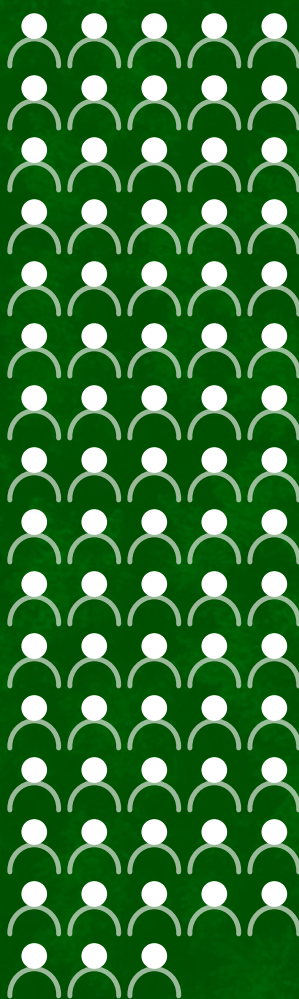
### Sustainable forests, supporting the environment

Forestry and the production of wood helps mitigate global climate change. There is approximately 1.75M 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).

# \$8.2M

in Dividends  
for the year ended  
30 June 2021



# 78

Staff and  
contractors  
employed



# 15,718m<sup>3</sup>

OF Bioenergy supplied



**\$45K**

**WILDING PINE  
CONTROL**



**1.75M  
TONNES**  
of carbon stored in  
City Forests



**\$75K**

**Ecological  
sponsorships  
including:**

- Yellow Eyed Penguin Trust
- Orokonui Ecosanctuary
- Otago Wildlife Hospital Trust



**57.0km**

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



of land under management

**24,106ha**



**929,000**

NEW TREES PLANTED 2020/2021



# CONTENTS

<u>5</u>	Company Particulars
<u>6</u>	50 year Partnership
<u>8</u>	Supporting Diversity
<u>10</u>	Providing for Our Communities
<u>13</u>	Directors' Report
<u>22</u>	Environmental Society & Governance
<u>24</u>	Company Highlights
<u>26</u>	Information on the Directors
<u>27</u>	Trend Statement
<u>28</u>	Statement of Comprehensive Income
<u>30</u>	Statement of Financial Position
<u>32</u>	Statement of Cashflows
<u>35</u>	Financial Statements
<u>57</u>	Statement of Service Performance
<u>61</u>	Audit Report



[www.cityforests.co.nz](http://www.cityforests.co.nz)





# COMPANY PARTICULARS

AS AT 30 JUNE 2021

## DIRECTORS

**J F Gallaher** - A.F.A., F.C.A., B Com., CF.Inst.D.,  
A.N.Z.I.M.

Appointed 01 November 2012,  
Appointed Chairman 1 October 2013

**T J Mephram** - B.Com., C.A., C.F.Inst.D.

Appointed 01 December 2013

**S A Mason** - F.C.A., CM.Inst.D, B Com., B.A., cBA.,  
DipGradBus., (Disp Res), A.A.M.I.N.Z.,

Appointed 01 October 2019

**K A Posa** - BMS(Hons), CA. G.A.I.C.D., CM.Inst.D.

Appointed 01 October 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

# 50 year partnership

## Gamble Forest Harvesting and City Forests

This year Gamble Forest Harvesting celebrated 50 years of working in partnership with City Forests. Directors Maria and Tony Gamble are the second generation of Gambles to run the business. Tony Gamble talked to City Forests about 50 years of collaboration.

“Dad started working with the team at City Forest back when it was Dunedin City Parks and Reserves. There was a big storm in 1971 and they brought in contractors to clean up the damage and Bill became one of their first contractors”.

Tony became involved in the business in 1983, taking it over by the early 1990's. The family business aspect worked well, and the business has grown significantly since then.

“The forestry business has changed a lot in that time. Technology has changed the way we do things and the scale of the operation. It used to be a young man's game involving a lot of physical work. It's a large, high production business, as opposed to the low-cost business that it was in the 1970's”.

What hasn't changed is the importance of good people and team work.

“The human element hasn't changed, it still about team work and we've got good people”.

Tony says that is rewarding to run a business that been around that long.

“We're not normally the type to make a big deal of that sort of thing but 50 years is a real milestone, it was great to get everyone together to celebrate.”

Talking about the relationship with City Forests Tony says that it's about good people and good communication.

“They're a big forest company – but they're a tight group. They've got good people running things. We're a real partnership – it's not a catch phrase. They've allowed us to grow, and they've got the benefits from that too. We're focused on providing a very good product for them and doing things right, but we don't take that for granted and I think they see those benefits – it works very well”. They're good at keeping us in the loop with what they're doing and what's happening in the industry.

Tony says that the team at City Forests is forward thinking, which allows his team to keep up with the times, embrace new technology and knit it all together.

The team have a long-term vision for City Forests. They know where they're heading.





# Supporting biodiversity

## The New Zealand Falcon, Kārearea

City Forests works with environmental organisations to monitor and assist with the preservation of wildlife within forests, including the New Zealand Falcon or Kārearea. Kārearea are known to inhabit a combination of open clear-felled areas and standing forest all over the City Forests estate.

With a total estimated population of only 3,000 pairs, this bird is particularly vulnerable. Working with Parker Conservation, City Forests, along with other plantation forest owners are working on a joint research effort to enhance both local and national protection efforts.

Graham Parker has been working with City Forests for the past 15 years. First in 2007 working with South Island robins for his Masters in Wildlife Management, and since 2016 monitoring the falcon population.

“When we started back in 2016 Kārearea were at the same Department of Conservation threat classification as Yellow Eyed Penguins, so they weren’t in a very safe place from a conservation perspective. There was a lot of concern about the population”.

At the time Parker went to Wenita, Otago Regional Council, Dunedin City Council and City Forests with the suggestion of establishing a joint fund to monitor the birds and produce quantitative data on the population. They all supported the project.

“City Forests really led the way with Peter Oliver managing the process and bringing other members of the plantation forestry community along on the journey. There are now seven forestry companies involved. It’s been a great result because falcons aren’t really discerning about who owns the forest”.

The survey focuses on the size of the Kārearea population in the forests to allow population trends to be understood. This allows the forestry community to know when they need to step up their conservation management.

Parker Conservation have also been involved in observing the impact of introduced mammalian predators on the falcon population to inform targeted control of exotic predators. As well as marking chicks with rings on their legs, for future observation over the years to estimate survival rates.

A large focus is understanding the interaction of Kārearea with forestry operations, so that any impact can be mitigated.





# Providing for our communities









# DIRECTORS' REPORT



# DIRECTORS' REPORT

## FOR THE YEAR ENDED 30 JUNE 2021

The Directors of City Forests Limited are pleased to present their report on the activities of the Company for the year ended 30 June 2021.

### PRINCIPAL ACTIVITIES OF THE COMPANY

This report covers the financial year 1 July 2020 to 30 June 2021.

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 2021

	\$'000
Operating Surplus before Income Tax	50,862
Less Income Tax	13,991
Net Surplus for the Year	36,871

### STATE OF AFFAIRS

The Directors are very pleased with the results achieved by the Company during the year having regard to the operational and market risk during the year from Covid 19 and believe that the state of affairs of the Company is strong.

### DIVIDENDS

The Directors declared and paid a total of \$8,200,000 in Dividends during the year made up of;

- an interim un-imputed dividend of \$4,000,000 in December 2020
- a final un-imputed dividend of \$4,200,000 in June 2021

### DONATIONS

There have been donations made of \$19,030 during the year.

### RESERVES

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

	\$'000
To Forestry Reserve	19,426
To Retained Earnings	9,244
From Hedging Reserve	967
To Land Revaluation Reserve	6,602
To Carbon Credit Reserve	8,842

### REVIEW OF OPERATIONS

This review of operations and the accompanying financial reports cover the 1 July 2020 to 30 June 2021 financial year.

Directors are very pleased to report a strong financial performance for City Forests Limited during the year recording a profit after tax of \$36.9m and dividends paid of \$8.2m. A summary of markets and operational factors contributing to the result is detailed below.

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 11.5 lost time injuries per 1 million hours worked (LTIF 6.4 previous year). The Company continued to improve its health and safety systems in accordance with its annual plan. The areas of contractor certification, risk assessment, internal safety audit systems 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.

The Company continues to demonstrate its commitment to responsible and sustainable management of its forest estate and has held uninterrupted Forest Stewardship Council (FSC) certification since 2000.

The forest, land and water is managed on a long term sustainable basis in accordance with the principals of Kaitiakitanga. Particular attention is given to supporting rare threatened and endangered species such as Kārearea (New Zealand Falcon) within the forest estate as well as Hoiho (Yellow Eyed Penguin) through support of the Yellow Eyed Penguin Trust and Otago Wildlife Hospital as well as substantial ongoing support of Orokanui Wildlife Sanctuary.

City Forests remains committed to climate change initiatives and Company forests store 1.87m tonnes of CO<sub>2</sub>. As new land is acquired and established in forest by the Company the carbon storage increases. The Company is a long-term participant in the New Zealand Emissions Trading Scheme which enables the Company to be financially rewarded for carbon sequestration. The Company has been a leader in establishing Bioenergy supply in Otago and is in the process of

establishing further bioenergy supply to enable customers to convert from coal to renewable wood fuel for energy generation. Further measurement of operation carbon emissions has been undertaken in order to set a benchmark for ongoing improvement and this is detailed further in this report.

## LOG EXPORT MARKETS

The Company continues to supply both the South Korean and Chinese log markets with regular shipments. Prices increased throughout the year in the “price setting” China market particularly during the second half of the financial year when record prices were achieved. Changes in the China market were mirrored in South Korea.

The cost per cubic metre of international shipping to Asian markets was highly volatile and increased throughout the year as log prices rose, trading from USD 38 to USD 64 per jas m3.

The value of the New Zealand Dollar compared to the United States Dollar was likewise volatile during the year across the 0.65c – 0.73c range.

The combination of increasing in market export log prices, increasing shipping costs and a volatile New Zealand Dollar delivered a period of increasing log export returns for New Zealand forest owners compared to the previous year.

## FOREIGN EXCHANGING HEDGING

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

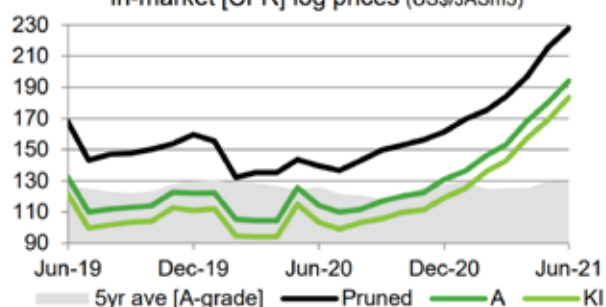
Foreign exchange risk is managed by a United States Dollar hedging portfolio administered on City Forests Limited’s behalf by Dunedin City Treasury Limited. The transactions and hedging portfolio are managed in accordance with the Company’s Foreign Exchange Policy that is endorsed by the shareholder.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

As described above, the year has again

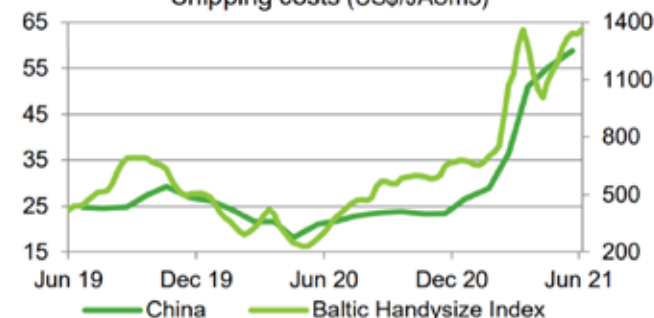
Ten year NZ Combined Log Indicator (\$/Tonne)



In-market [CFR] log prices (US\$/JASm3)



Shipping costs (US\$/JASm3)



seen significant variation in the value of the New Zealand Dollar.

## DOMESTIC LOG MARKET

The Company continues to supply domestic mills in Otago and Southland. Overall, 30.7% (33.7% previous year) of log production from the Company's forests was supplied to domestic customers. Domestic supply is constrained by domestic log processing production capacity. During the year the Company's largest domestic customer Craigpine changed ownership and downsized and no longer purchases logs from the Company.

Prices for logs supplied to domestic customers increased during the year however prices were less volatile than export log prices due to 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.

## FOREST PRODUCTION

The Company had a strong production year harvesting above sustainable cut levels to catch up production lost during the previous year's Covid 19 Level 4 lockdown period when no production occurred for 5 weeks. The overall harvest production from the forest estate was 388,664m<sup>3</sup> compared to 378,385m<sup>3</sup> planned.

The Company handled a total volume of 402,260m<sup>3</sup> for the year. 13,597m<sup>3</sup> of outside wood was traded during the year principally to supplement log export operations.

## ROADING AND INFRASTRUCTURE

A roading network of approximately 392 km is established in the Company's estate. 75 km 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 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 well positioned to take advantage of the favourable 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 highest genetic quality tree stock and to apply optimum tending regimes. This involves selecting tree stocks with the best genetic potential and applying best practice silviculture during the preparation and growth phase 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 future productivity.

The Company is participating in the governance and 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.

## NEW LAND ACQUISITION

During the year the Company purchased 563 ha of new land (1195 ha previous year). The land is situated adjacent to the Company's existing Millers and Tokoiti forests and will be progressively planted during the 2021 and 2022 planting seasons providing an increase in the Company's sustainable harvest level and carbon sequestration. The Company continues with its strategy of estate expansion where quality forest 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 (CO<sub>2</sub>).

The Company has filed an emissions return for the 2020 emissions year. As at 30 June 2021 the Company has received 180,602 NZU's as a result of filing that return.

The Company did not sell any NZU's during the period. The market price of an NZU increased during the year from the \$32 per NZU range into the \$43 per NZU range following Government announcements regarding future Emission Trading Scheme settings and the introduction of NZU auctioning.

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

During the year the Company finalised modelling work to forecast future annual carbon sequestration and emission

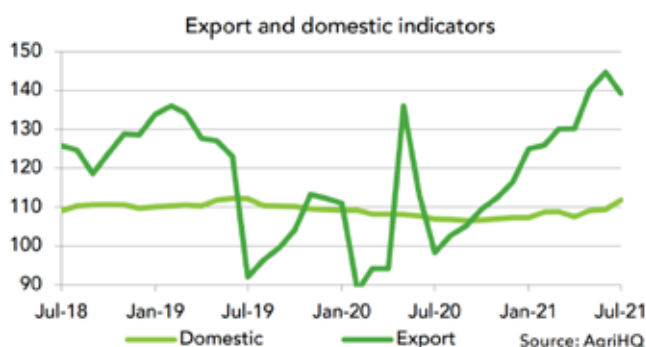


Chart: New Zealand Industry Average Export and Domestic Prices

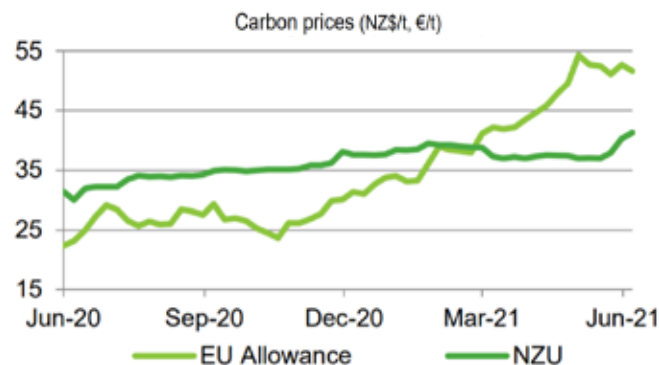


Chart: Carbon prices

transactions in accordance with the rules of the New Zealand Emission Trading Scheme. The modelling aligned future carbon transactions with the long-term strategic plan. This modelling established a safe or liability free carbon level being the number of NZU's the Company has available for sale liability free. NZU's held above this safe level effectively have no value as the NZU's are subject to future surrender liabilities following harvest.

The recognition of NZU's held in the Company's registry account is defined by accounting policy. Units are held at fair value. The fair value of a NZU available for sale is the market price. Carbon units that are held to be surrendered to meet future harvest liabilities are initially recognised and subsequently measured at nil.

## GREENHOUSE GAS EMISSIONS REPORTING

During the year the Company has, for the first time, assessed and measured our Greenhouse Gas (GHG) emissions.

We completed this process with the assistance of Lumen and Opportune Consulting and in accordance with the requirements of the Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (2004) and ISO 14064-1:2006 Specification with Guidance at the Organization Level for Quantification and Reporting of Greenhouse Gas Emissions and Removals.

We have measured our Scope 1,2 and 3 emissions.

Scope 1 emissions by definition include agriculture and forestry emissions. Our reporting includes net sequestration by native forest reserve areas but specifically excludes commercial forest areas. Commercial forest areas are registered under the New Zealand Emissions Trading Scheme and are accounted for under the rules of that scheme. Therefore, carbon sequestration from commercial forest growth and deforestation emissions from harvest are excluded.

Scope 3 emissions are the most significant source of emissions and reflect that all forest operational and supply chain activities, which incorporate the heavy industry component of the operational business supply chain, are contracted.

Scope 1 emissions are direct emissions that are operationally controlled by City Forests Limited, including:

- Petrol / diesel used in company vehicles.
- Sequestration and emissions from Forestry. Note this includes native reserve areas but excludes commercial plantations that are registered in the New Zealand Emissions Trading Scheme and are accounted for under the rules of that scheme.

Scope 2 emissions are indirect GHG emissions from imported energy, including:

- Purchased electricity that is consumed at operational sites.

Scope 3 emissions are indirect or value chain emissions. The emissions

we have measured were chosen to ensure alignment across the Dunedin City Holdings Limited (DCHL) group of companies. It was agreed that the companies would report on a minimum set of Scope 3 emissions which are waste, freight and travel. In addition, we expanded our Scope 3 emissions reporting to include the activity from our contractors.

Our Scope 3 emissions include the following:

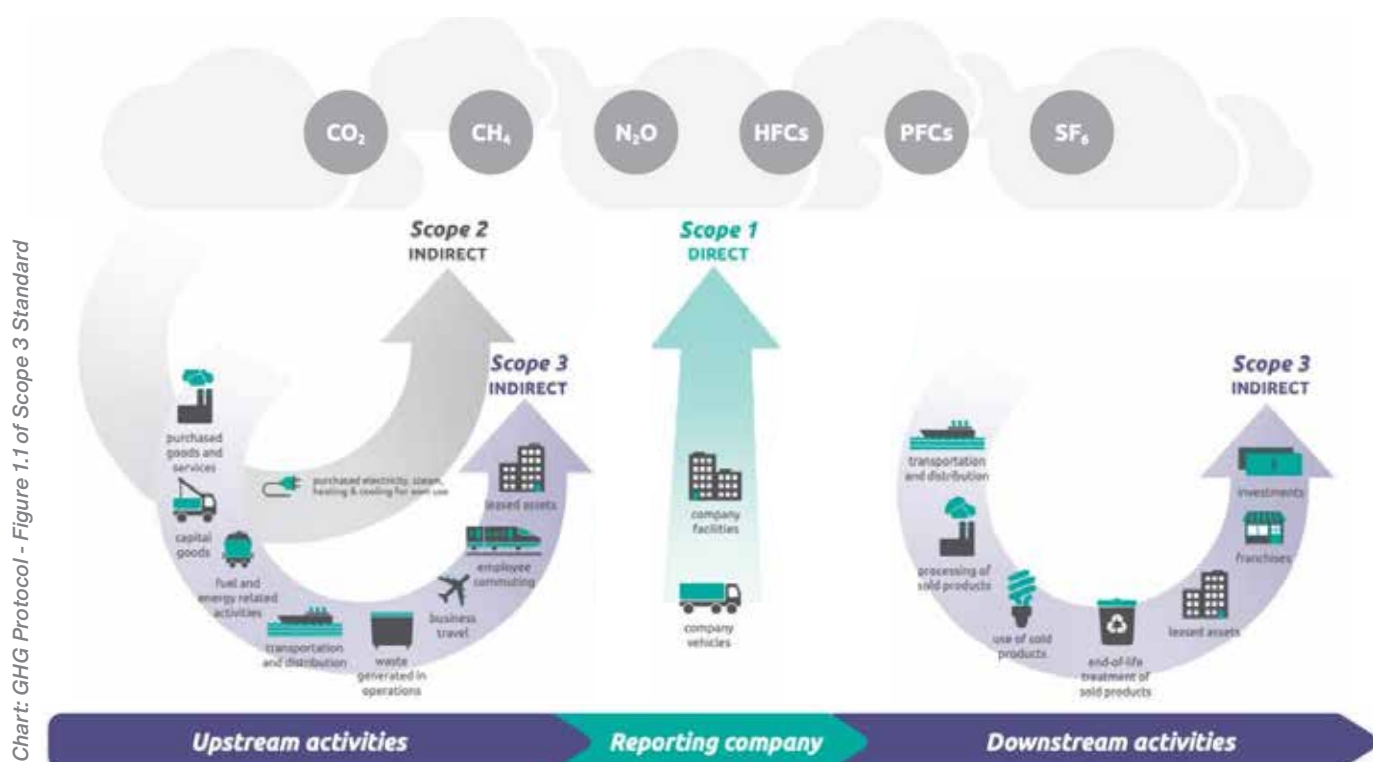
- Business travel (primarily flights and accommodation).
- Waste generated to landfill from our operations.
- Contract Operations including: land management, forest establishment and silviculture, roading and harvesting, log transport, port operations and international shipping.

## RESULTS

Emissions are reported as tonnes (t) of Carbon Dioxide (CO<sub>2</sub>) equivalent (e); or tCO<sub>2</sub>-e. "Carbon dioxide equivalent" is a standard unit for counting greenhouse gas emissions regardless of whether they are from carbon dioxide or another greenhouse gas.

## EMISSIONS BY SCOPE

City Forests measured GHG emissions for the year end 30 June 2021 are 27,404 tCO<sub>2</sub>-e, with sequestration from native reserve areas of 7,265 tCO<sub>2</sub>-e, resulting in net emissions of 20,139 tCO<sub>2</sub>-e. As described above commercial forest carbon sequestration / emissions are excluded



and the Company's primary source of emissions is Scope 3 emissions relating to contract supply chain operations.

Emissions	tCO <sub>2</sub> -e	% of Total
Scope 1	112	0.41%
Scope 2	3	0.01%
Scope 3	27,289	99.58%
<b>Subtotal</b>	<b>27,404</b>	<b>100%</b>
Native Forest	(7,265)	-27%
<b>Net Total</b>	<b>20,139</b>	<b>73%</b>

## EMISSIONS BY ACTIVITY

Our top emissions sources are summarised below:

Category emission source	tCO <sub>2</sub> -e
Freight	22,743
Contractor Fuels	4,540
Fuels	107
Fertiliser	5
Flights (Domestic)	5
Purchased Electricity	3
Waste to Landfill	1
T&D Losses	0.3
Taxis	0.1
Accommodation	0.1
Forestry (owned)	(7,265)

## EMISSIONS REPORTING NEXT STEPS

As this is our first footprint, a number of assumptions and estimates have been made when calculating our emissions. It is our intention to measure and manage our footprint on an ongoing basis and to report on this annually. As noted in our 2021-2022 Statement of Intent, next steps include developing emissions and waste reduction strategies and associated targets. We will also focus on improving the accuracy of our calculations, giving consideration to the most relevant

Scope 3 emissions that we track, and implementing measures to reduce our emissions.

## FOREST VALUATION

Company forest crops are valued annually on 30 June and the fair value increased by \$31.096 million from the previous year. The primary drivers of the valuation change were increases in 5-year average log prices and a reduction in the discount rate applied to the valuation to 5.5% (6% previous year). These factors were in part offset by increases in land rental costs and production costs.

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 the outcome of a standard New Zealand Institute of Forestry forest valuation approach that has been independently audited by a third-party, Woodlands Pacific.

Company land is valued using a market-based fair value 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 \$8.2 million during the year. The dividend was increased from the budgeted dividend of \$4.2 million as a result of strong trading conditions and above plan cashflows.

## 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 market volatility. Operationally, the Company plans 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 investment in economically viable new land and forest assets that are selectively targeted within its operational area.

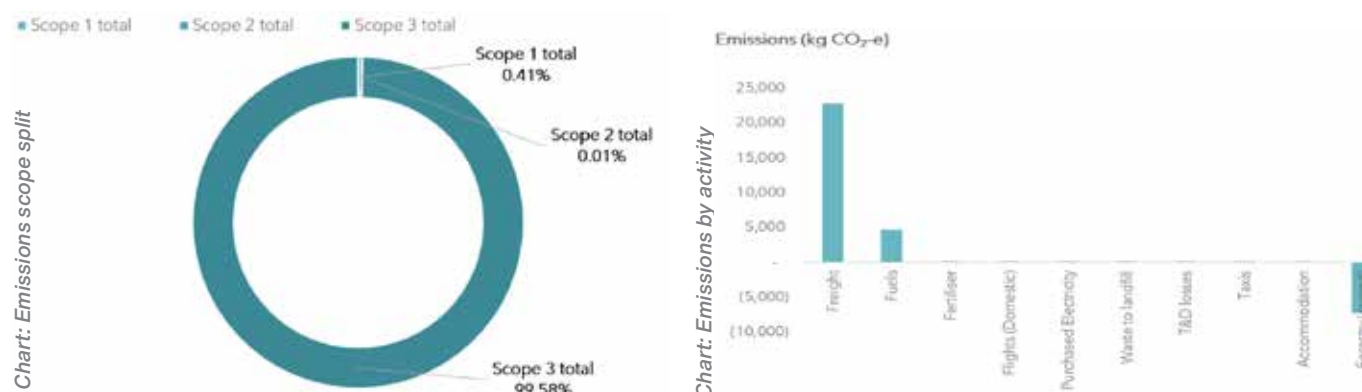
In summary, the 2020 - 2021 year has been strong in terms of profitability. The Company has paid a record dividend to its shareholder as well as expanded the business through the acquisition of new land and forest area.

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 2022 financial year is to deliver a strong result although profitability may be variable due to the impact of Covid - 19 and geopolitical tensions. The underlying operational performance is predicted to be similar to previous years, 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 coming year.

The Company's financial performance



is driven by export and domestic log sales and strong customer relationships. A dividend of \$5.5 million is forecast for the 2022 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 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 349,000m<sup>3</sup> per annum. The Company is well placed with a mature, harvest ready forest and proven export capability to make the most of market opportunities.

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

## CHANGE OF DIRECTORS

Mr Mark Shirley attended board meetings during the year as a non-voting Intern Director as part of the Dunedin City Holdings Limited, Graham Crombie Director Internship Program. Mr Shirley's term finished on 30 June 2021.

## FINANCIAL STATEMENTS

The audited financial statements for the year ended 30 June 2021 are attached to this report.

## DIRECTORS' INTEREST IN CONTRACTS

Refer to Directors' Declarations of Interest section on page 26 and the Related Parties Transactions note 15.

## AUDITORS

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

## EMPLOYEE REMUNERATION

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

Employee Remuneration and Other Benefits	Number of Employees
\$100,000 - \$110,000	3
\$160,000 - \$170,000	1
\$210,000 - \$220,000	2
\$350,000 - \$360,000	1

## INFORMATION ON THE DIRECTORS OF CITY FORESTS LIMITED

Director and responsibilities	Remuneration \$,000	
	2021	2020
<b>John F Gallaher</b> Non-Executive Director (Appointed 1st November 2012) Chairman Remunerations Sub-committee (Appointed 1st October 2013)	69	57
<b>Tim J Mepham</b> Non-Executive Director (Appointed 1st December 2013)	36	32
<b>Michael C Horne</b> Non-Executive Director (Appointed 9th December 2013) (Retired 30th September 2019)	-	8
<b>Scott A Mason</b> Non-Executive Director (Appointed 1st October 2019)	36	24
<b>K Alison Posa</b> Non-Executive Director (Appointed 1st October 2019)	36	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. 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 supported by an experienced Board of Directors.

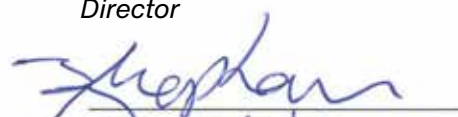


On behalf of the Board of Directors:

**J F Gallaher**  
Chairman

  
Date 21/11/21.

**T J Mepham**  
Director

  
Date 2/11/21

# CITY FORESTS ENVIRONMENTAL SOCIAL & GOVERNANCE “FORESTS FOR OUR FUTURE”



## Health & Safety

- Commitment & improvement culture
- Lost Time Injury Frequency 11.5 (6.4 previous year)
- Contractor Certification
- Risk assessment
- Drug and alcohol testing
- Internal safety audit systems
- Audit and compliance



## Environment and Sustainability

- Continued commitment to responsible and sustainable forest estates
- 115 years of sustainable forest management
- 21 years Forest Stewardship Council (FSC) certification
- Audit by FSC (promote responsible forest management)
- FSC confirmed the Company's strategy/systems are sustainable & environmentally positive
- Bio-energy – supply of logs to Otago bio-energy market/  
Supply wood energy to Fonterra Stirling via Pioneer Energy
- Rare Threatened & Endangered Species Protection – work with DOC/University of Otago maintained and enhanced
- Sponsorships – Orokonui Eco Sanctuary, Yellow Eyed Penguin Trust, Wildlife Hospital



## Climate Change

- Greenhouse Gas Emissions reporting undertaken
- Measure & improve emissions
- Participant in Emissions Trading Scheme
- Carbon Storage 1.8m ton
- New plantings increasing carbon storage



## Responsible Business

- Corporate governance
- Risk management
- Legal compliance
- Conduct & Ethics
- Verification
  - » Financial → Audit NZ
  - » Risk → Crowe
  - » Environment → FSC
  - » Health & Safety → Internal Compliance Audit / FISC Contractor Certification



## Society and Community

- Donations - Clubs & Charities
- Public use of forests in a controlled fashion is encouraged
- Events – Rally of Otago/Trail bike events
- Recreational activities – Mountain biking/walking/horse trekking
- Bike tracks established
- Emergency Management & Rural Fire



## Our People

- Safety & well being
- Culture of valuing staff
- Training plans in place
- Apprenticeship Program participation

## COMPANY HIGHLIGHTS

NPAT

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\$36.9m

SHAREHOLDERS FUNDS

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\$246.9m

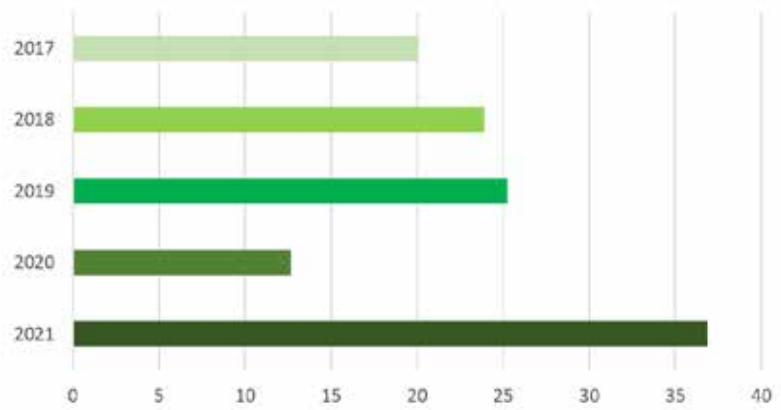
DIVIDENDS PAID

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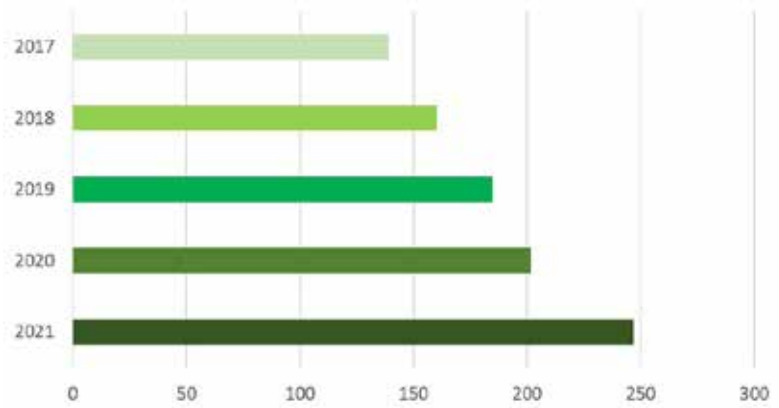
\$8.2m

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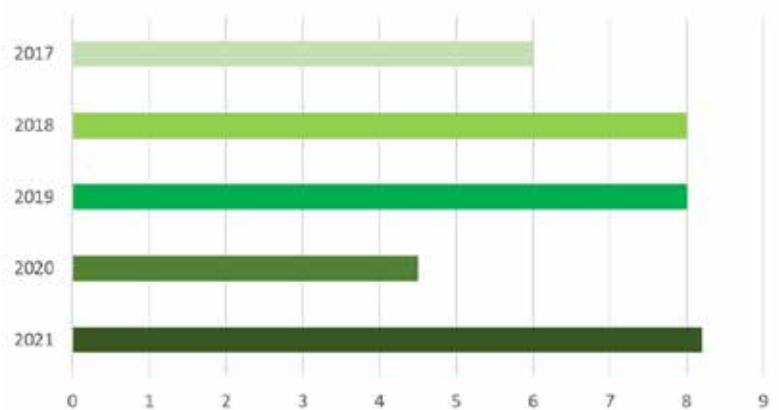
NPAT | \$NZ millions



Total Equity | \$NZ millions



Dividends Paid | \$NZ millions



# 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., A.N.Z.I.M.

**Chairman**

Chairman appointed October 2013

Date appointed 1st November 2012

Chairman, Otago Southland Diocesan Board of Finance

Chairman, Tui Motu Foundation Inc

Chairman, Catalytic Foundation

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

Director, Financially Limited

Director, Smith Brothers Holdings Limited (and ancillary entities)

Chairman, NomosOne (and subsidiaries)

Director, Get Home Safe 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, Southern Motor Group Limited (and associated entities)

Director, Samian Notas Limited

Member, Otago Branch Committee, Institute of Directors

**Ms K Alison Posa** - BMS(Hons), CA. GAICD, CM.Inst.D.

**Non-Executive Director**

Dated appointed 1 October 2019

Director, Asurequality Limited

Member Audit Advisory Board, PricewaterhouseCoopers

**Mr Tim J Mephram** - 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 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

Senior Partner, Findex Otago

Director, Innovation Learning Holdings Limited

Director, Bison Group Limited

Director, Severely Limited

# TREND STATEMENT

FOR THE YEAR ENDING 30 JUNE 2021

(All \$,000 unless stated otherwise)

## FINANCIAL PERFORMANCE

	2021	2020	2019	2018	2017
Domestic revenue	12,001	9,553	11,831	13,043	12,756
Export revenue	51,660	37,085	46,785	39,421	26,465
Other revenue	1,433	576	432	1,513	869
<b>Total revenue</b>	<b>65,094</b>	<b>47,214</b>	<b>59,048</b>	<b>53,977</b>	<b>40,090</b>
Percentage increase	37.8%	(20.0%)	9.4%	34.6%	(14.4%)
Inventory movement	(916)	(43)	86	237	869
<b>Total expenses</b>	<b>57,352</b>	<b>45,926</b>	<b>48,484</b>	<b>45,770</b>	<b>28,857</b>
Percentage increase	26.5%	(5.2%)	5.9%	37.5%	(18.3%)
<b>Operating surplus</b>	<b>6,888</b>	<b>1,245</b>	<b>10,650</b>	<b>8,444</b>	<b>12,102</b>
New Zealand carbon credits	5,069	4,861	4,247	6,467	6,182
Gain in fair value of forestry asset	38,164	11,628	20,333	19,672	9,629
Write down value of land	803	(69)	(462)	(1,528)	(389)
<b>Surplus after non-operating items and before taxation</b>	<b>50,862</b>	<b>17,665</b>	<b>34,768</b>	<b>33,055</b>	<b>27,524</b>
<b>Income tax</b>	<b>13,991</b>	<b>4,987</b>	<b>9,536</b>	<b>9,142</b>	<b>7,420</b>
<b>TOTAL SURPLUS AFTER TAXATION</b>	<b>36,871</b>	<b>12,678</b>	<b>25,232</b>	<b>23,913</b>	<b>20,104</b>

## SHAREHOLDERS' FUNDS

Shareholders' funds	246,898	201,816	184,759	160,343	139,058
Operating cash flow	16,344	5,659	13,578	15,353	12,748
Dividends paid - normal	4,200	4,500	6,500	5,000	4,500
Dividends paid - special	4,000	-	1,500	3,000	1,500
Value of forest	200,246	169,150	164,010	150,172	136,333
Surplus after tax to shareholders funds	14.93%	6.28%	13.66%	14.91%	14.45%
Proprietorship ratio	73.06%	72.12%	71.60%	70.03%	67.36%
Net forest revaluation	27,478	8,374	14,640	13,585	9,629
Net land revaluation	7,327	2,796	4,735	2,277	3,584

## FOREST STATISTICS (Whole numbers)

Forest harvested (m³)	388,664	310,100	336,374	303,922	277,201
Volume traded (m³)	13,597	27,093	31,967	44,014	64,455
Forest planted (ha)	1,030	970	765	591	579
Total forest (ha)	19,324	19,050	18,143	17,285	16,795
Forest purchased (ha)	87	0	38	244	347

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

# STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDING 30 JUNE 2021

	NOTE	2021 \$,000	2020 \$,000
Revenue	3	70,600	52,040
Financial income		366	36
Gain/(loss) in fair value of forestry asset	5	38,164	11,628
<b>TOTAL REVENUE</b>		<b>109,130</b>	<b>63,704</b>
Inventory Movement		(916)	(43)
<b>LESS EXPENSES:</b>			
Contractors		18,115	18,673
Depreciation and amortisation expense		571	527
Directors fees		177	145
Employee expenses		2,028	1,537
Financial expenses		513	1,852
Other expenses	4	35,948	23,262
<b>Total expenses</b>		<b>57,352</b>	<b>45,996</b>
<b>Profit before tax</b>		<b>50,862</b>	<b>17,665</b>
Income tax expense	13	13,991	4,987
<b>NET PROFIT AFTER TAX</b>		<b>36,871</b>	<b>12,678</b>
<b>OTHER COMPREHENSIVE INCOME:</b>			
Gains/(loss) on cash flow hedges taken to equity		1,342	(6)
Tax effect of cash flow hedges taken to equity		(376)	2
Increase in land revaluation		6,745	2,875
Reversal of revaluation gain on disposed land		(221)	-
Tax effect of land revaluation taken to equity		78	(78)
Carbon credits revaluation above initial recognition taken to equity		12,279	8,454
Tax effect of carbon taken to equity		(3,436)	(2,367)
<b>OTHER COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>16,411</b>	<b>8,879</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>53,282</b>	<b>21,557</b>

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 2021

	NOTE	2021 \$,000	2020 \$,000
Equity at beginning of year		201,816	184,759
Total comprehensive income for the year		53,282	21,557
Distribution to owners		(8,200)	(4,500)
Dividends			
<b>EQUITY AT END OF YEAR</b>		<b>246,898</b>	<b>201,816</b>

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

# STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2021

<b>EQUITY</b>	<b>NOTE</b>	<b>2021 \$,000</b>	<b>2020 \$,000</b>
Share Capital	8	25,691	25,691
Forestry reserve	9	103,921	84,495
Land revaluation reserve	9	39,683	33,081
Hedging reserve	9	568	(399)
Carbon credit reserve	9	16,862	8,019
Retained earnings	10	60,173	50,929
<b>TOTAL EQUITY</b>		<b>246,898</b>	<b>201,816</b>
<b>LIABILITIES</b>			
<i>CURRENT LIABILITIES</i>			
Trade and other payables		4,042	3,504
Other current liabilities		82	463
Employee Provisions		286	170
Derivative financial instruments	11	138	399
Provision for taxation		4,559	3,670
Lease liabilities		108	110
<b>Total current liabilities</b>		<b>9,215</b>	<b>8,316</b>
<i>NON-CURRENT LIABILITIES</i>			
Derivative financial instruments	11	285	261
Term borrowings	12	16,000	17,000
Lease liabilities	20	393	479
Net deferred tax liability	14	65,129	51,962
<b>Total non-current liabilities</b>		<b>81,807</b>	<b>69,704</b>
<b>TOTAL LIABILITIES</b>		<b>91,022</b>	<b>78,018</b>
<b>TOTAL EQUITY PLUS LIABILITIES</b>		<b>337,920</b>	<b>279,834</b>

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

<b>ASSETS</b>	<b>NOTE</b>	<b>2021 \$,000</b>	<b>2020 \$,000</b>
<b>CURRENT ASSETS</b>			
Cash and cash equivalents		1,477	2,143
Trade and other receivables		3,927	3,333
Derivative financial instruments	<b>11</b>	928	33
Inventories – raw materials		726	1,642
Prepayments		135	137
GST refund		423	280
Assets held for sale	<b>17</b>	-	1,770
Deposit on property purchase		-	105
<b>Total current assets</b>		<b>7,616</b>	<b>9,443</b>
<b>NON-CURRENT ASSETS</b>			
Derivative financial instruments	<b>11</b>	283	73
Property, plant and equipment	<b>7</b>	80,309	69,165
Forestry assets	<b>5</b>	200,246	169,150
Investments		1	1
Intangibles – computer software		22	32
Intangibles – New Zealand carbon credits	<b>6</b>	49,443	31,970
<b>Total non-current assets</b>		<b>330,304</b>	<b>270,391</b>
<b>TOTAL ASSETS</b>		<b>337,920</b>	<b>279,834</b>

For and on behalf of the Board of Directors:

**J F Gallaher**  
Chairman

  
Date 21/11/21.

**T J Mephram**  
Director

  
Date 2/11/21

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 2021

	NOTE	2021 \$,000	2020 \$,000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
<i>CASH WAS PROVIDED FROM</i>			
Receipts from customers		63,869	49,540
Effect of exchange rate changes		342	-
Interest received		2	35
		<b>64,213</b>	<b>49,575</b>
<i>CASH WAS DISBURSED TO</i>			
Payments to suppliers and employees		43,712	35,055
Interest paid		489	507
Income tax/subvention		3,668	6,995
Effect of exchange rate changes		-	1,360
		<b>47,869</b>	<b>43,917</b>
<b>NET CASH INFLOWS/(OUTFLOWS) FROM OPERATING ACTIVITIES</b>	<b>16</b>	<b>16,344</b>	<b>5,658</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
<i>CASH WAS PROVIDED FROM</i>			
Carbon credits sold		-	8,240
Sale of property, plant and equipment		1,637	517
		<b>1,637</b>	<b>8,757</b>
<i>CASH WAS DISBURSED TO</i>			
Purchase of property, plant and equipment		4,419	9,507
Purchase of Forest Assets		4,763	2,441
Purchase of carbon credits		125	-
		<b>9,307</b>	<b>11,948</b>
<b>NET CASH INFLOWS/(OUTFLOWS) FROM INVESTING ACTIVITIES</b>		<b>(7,670)</b>	<b>(3,191)</b>

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

	2021 \$,000	2020 \$,000
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
<i>CASH WAS PROVIDED FROM</i>		
Proceeds from borrowings	4,000	8,900
	<b>4,000</b>	<b>8,900</b>
<i>CASH WAS DISBURSED TO</i>		
Repayment of borrowings	5,000	5,500
Lease repayments	140	98
Dividends paid	8,200	4,500
	<b>13,340</b>	<b>10,098</b>
<b>NET CASH INFLOWS/(OUTFLOWS) FROM FINANCING ACTIVITIES</b>	<b>(9,340)</b>	<b>(1,198)</b>
<b>Net (Decrease)/Increase in Cash Held</b>	<b>(666)</b>	<b>1,269</b>
Cash and short term deposits at the beginning of the year	2,143	874
<b>CASH AND SHORT TERM DEPOSITS AT THE END OF THE YEAR</b>	<b>1,477</b>	<b>2,143</b>
<b>COMPOSITION OF CASH</b>		
Cash and short term deposits	1,477	2,143



## 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.





# FINANCIAL STATEMENTS

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDING 30 JUNE 2021

## 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 28th September 2021.

### 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

There have been no changes in accounting policies and all policies have been applied consistently to all years in these financial statements.

### 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 in the notes to the financial statements 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 note 11 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.

## Interest Income

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.

## 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 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 2021 \$,000	As at 30 June 2020 \$,000
Sales revenue	63,662	46,638
New Zealand carbon credits	5,069	4,862
Gain on sale of property, plant and equipment	404	24
Net reversal of land value impairments	803	-
Other revenue	662	516
	<b>70,600</b>	<b>52,040</b>
Net reversal of land value impairments:		
Impairment reversal	1,155	671
Write down of land value	(352)	(740)
<b>Net write up</b>	<b>803</b>	<b>(69)</b>



### 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.

### 4. OTHER EXPENSES

	As at 30 June 2021 \$,000	As at 30 June 2020 \$,000
Accounting services	20	-
Audit fees - for audit of financial statements	49	48
Donations	19	28
Impairment loss on disposal of land	62	-
Loss on sale of property, plant and equipment	298	49
Research expenditure	-	170
Cost of bush applied	12,375	9,441
Shipping costs	17,704	8,446
Write down of land value	-	69
Other operating expenses	5,421	5,011
	<b>35,948</b>	<b>23,262</b>

## 5. FORESTRY ASSETS

	As at 30 June 2021 \$,000	As at 30 June 2020 \$,000
Balance at the beginning of the year	169,150	164,010
<b>ADD</b>		
Costs capitalised in establishing forests during the year	3,392	2,953
Increase in forest from acquisition	1,915	-
Forestry revaluation	38,164	11,628
<b>LESS</b>		
Cost of trees harvested at fair value	(12,375)	(9,441)
	<b>200,246</b>	<b>169,150</b>
<i>Gains/(losses) arising from changes in fair value less point of sale costs;</i>		
attributable to physical changes	7,440	11,511
attributable to price changes	30,724	117
	<b>38,164</b>	<b>11,628</b>

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

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 be calculated under the assumption that a stand will not be replanted once felled irrespective of the sustainable forest policy of the Directors. The change in the value of the forest from year to year is reflected in the statement of comprehensive income.

Fair value requires calculating the present value of expected net cash flows using a post-tax discount rate. This discount rate used by the Company is 5.5% (2020 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 5.5%; a +/- 50 basis point movement in the discount rate would change the valuation by +\$12.34 mil / -\$11.17 mil. A 10% increase or decrease in assumed log prices would change the valuation by +\$17.95 mil / -\$17.93 mil (note that the sensitivities shown are independent and different outcomes would result from combined changes in discount and log prices).

At 30 June 2021 the Company owned stands of trees on 19,324 hectares of a total productive land holding (including lease, Joint Venture & Forestry Right) of 23,731 hectares. During the year the Company harvested approx. 388,664 m3 of logs from its forests.

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

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

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



## ACCOUNTING POLICY

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

The fair value of the forest, exclusive of the forest land, is determined at each reporting date. Fair value is equivalent to the NZIF Forest Valuation Standard's

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

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

## 6. NEW ZEALAND CARBON CREDITS

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

A forest owner with forests established after 31st December 1989, under the Act, may opt to join the Emissions Trading Scheme. Post-1989 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-1989 registration, the New Zealand Government has allocated City Forests 2,865,718 Post-89 derived NZU's, being the carbon sequestered by these forests during the 2008 to 2020 calendar years. There were no carbon credit sales for the financial year. (2020 350,000 units).

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 2021, 1,187,042 units were unsold (2020 996,027 units). Under the accrual principle, the safe carbon level 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 2021 \$,000	As at 30 June 2020 \$,000
New Zealand carbon credits	49,443	31,970

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.

During the year the Company finalised modelling work to forecast future annual carbon sequestration and emission transactions in accordance with the rules of the New Zealand Emission Trading Scheme. This modelling established a safe or liability free carbon level being the number of NZU's the Company has available for sale liability free. NZU's held above this safe level effectively have no value as the NZU's are subject to future surrender liabilities following harvest.

The recognition of NZU's held in the Company's registry account is defined by accounting policy.



### ACCOUNTING POLICY

Carbon Credits (NZU's) are treated as intangible assets.

- Purchased carbon units are initially measured at cost.
- Carbon units are granted by the Government under the emissions trading scheme for carbon sequestration by post-1989 forests. Although some carbon units earned for forest growth will subsequently be returned to the government when the forest is harvested, a proportion of units will never be returned under expected forest crop

rotations. These liability free carbon units are initially recorded at fair value.

- Carbon units that are held to be surrendered to meet future harvest liabilities are initially recognised and subsequently measured at nil.
- Liability free carbon units are marked to market (revalued annually at 30 June subsequent to initial recognition and biannually thereafter. This fair value is based on current market prices. The difference between initial fair value or previous annual revaluation and

revaluation value of the liability free units is recognised in other comprehensive income.

- Emissions obligations are recognised for forest harvesting that has occurred up to balance date. Emissions obligations are measured based on the carrying value of carbon units held by the company that will be used to settle the obligation (generally nil value) plus the fair value of any excess carbon units required to be purchased to meet the emissions obligation.

NZU's # of units at end of year		2021 #
Held at Fair value		1,137,414
Held at Nil value		49,628
<b>Total Units at end of year</b>		<b>1,187,042</b>

#### Units - Post 1990

Opening	995,940
Credits Issued	(180,602)
Per Emissions Trading Register	1,176,542
Units acquired	9,120
Fair Value NZU's	1,185,662

#### Units - Pre 1990

Opening balance	0
Acquired	1,380
Closing balance at end of year	1,380
<b>Closing balance all units at end of year</b>	<b>1,187,042</b>
Less Units at Nil value	(49,628)
	<b>1,137,414</b>

	\$ \$'000
Value applied to risk free units @ \$43.47	49,443

The price of the risk-free units is determined by the NZU spot price on Jarden Commtrade as at 30 June.

The risk-free number of NZUs are determined by forest estate modelling of the company's forest growth and forecast harvest profile. This generates forecast future annual carbon sequestration and harvest liability transactions in accordance with the rules of the New Zealand Emission Trading Scheme.

The time period that a NZU is held at nil value to meet future harvest liabilities is from balance date to the projected low point in the company's carbon modelling.

## 7. PROPERTY, PLANT AND EQUIPMENT

2021

	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	-	65,506	646	8,767	1,538	846	171	2	669	78,145
Purchases	-	3,846	5	439	42	111	27	12	30	4,512
Revaluation	-	6,745	-	-	-	-	-	-	-	6,745
Disposals	-	(335)	9	-	-	(242)	(3)	-	-	(571)
<b>Balance at end of year</b>	<b>-</b>	<b>75,762</b>	<b>660</b>	<b>9,206</b>	<b>1,580</b>	<b>715</b>	<b>195</b>	<b>14</b>	<b>699</b>	<b>88,831</b>

### Accumulated depreciation/impairment

Balance at beginning of year	-	2,378	187	4,647	1,074	478	128	-	88	8,980
Depreciation	-	-	20	218	69	107	14	-	126	544
Net Impairment reversal	-	(803)	-	-	-	-	-	-	-	(803)
Disposals	-	-	-	-	-	(207)	(2)	-	-	(209)
	<b>-</b>	<b>1,575</b>	<b>207</b>	<b>4,865</b>	<b>1,143</b>	<b>378</b>	<b>140</b>	<b>-</b>	<b>214</b>	<b>8,522</b>
<b>BALANCE AT END OF YEAR</b>	<b>-</b>	<b>74,187</b>	<b>453</b>	<b>4,341</b>	<b>437</b>	<b>337</b>	<b>55</b>	<b>14</b>	<b>485</b>	<b>80,309</b>
Comprising – Cost	-	-	453	4,341	437	337	55	14	485	6,122
– Valuation	-	74,187	-	-	-	-	-	-	-	74,187
Carrying amounts (revalued assets if measured under the cost model)		34,504	-	-	-	-	-	-	-	34,504

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 2021 was \$6,745k (2020 \$2,875k). All other asset classes are shown at cost.

The company has had its land assets independently valued at 30 June 2021 by Morice Limited using the Fair Value approach. This method is consistent with the previous period and the market values recommended by Morice Limited 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



## ACCOUNTING POLICY CONTINUED

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

	RATE	METHOD
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.

# 2020

	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	RIGHT OF USE ASSET \$'000	TOTAL \$'000
<b>Cost or Valuation</b>										
Balance at beginning of year	755	54,072	1,928	8,140	1,620	709	231	2	-	67,457
Purchases	-	8,607	151	627	51	229	12	-	669	10,346
Revaluation	48	2,827	-	-	-	-	-	-	-	2,875
Disposals	(90)	-	(344)	-	(133)	(92)	(72)	-	-	(731)
Transfers to assets held for sale	(713)	-	(1,089)	-	-	-	-	-	-	(1,802)
<b>Balance at end of year</b>	<b>-</b>	<b>65,506</b>	<b>646</b>	<b>8,767</b>	<b>1,538</b>	<b>846</b>	<b>171</b>	<b>2</b>	<b>669</b>	<b>78,145</b>

### 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)
Transfers to assets held for sale	-	-	(32)	-	-	-	-	-	-	(32)
	<b>-</b>	<b>2,378</b>	<b>187</b>	<b>4,647</b>	<b>1,074</b>	<b>478</b>	<b>128</b>	<b>-</b>	<b>88</b>	<b>8,980</b>
<b>BALANCE AT END OF YEAR</b>	<b>-</b>	<b>63,128</b>	<b>459</b>	<b>4,120</b>	<b>464</b>	<b>368</b>	<b>43</b>	<b>2</b>	<b>581</b>	<b>69,165</b>
Comprising – Cost	-	-	459	4,120	464	368	43	2	581	6,037
– Valuation	-	63,128	-	-	-	-	-	-	-	63,128
Carrying amounts (revalued assets if measured under the cost model)	-	30,047	-	-	-	-	-	-	-	30,047

## 8. EQUITY - SHARE CAPITAL

	As at 30 June 2021 \$,000	As at 30 June 2020 \$,000
<b>Issued Capital</b>	<b>25,691</b>	<b>25,691</b>
The Company has issued 25,690,522 ordinary shares and these are fully paid. Fully paid ordinary shares carry 1 vote per share and carry the right to dividends and pro rata share of net assets on winding up of the Company.		

## 9. RESERVES

### Forestry Reserve

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

	As at 30 June 2021 \$,000	As at 30 June 2020 \$,000
Balance at beginning of the year	84,495	82,027
Transfer from retained earnings	19,426	2,468
<b>BALANCE AT THE END OF THE YEAR</b>	<b>103,921</b>	<b>84,495</b>

### Hedging Reserve

Balance at beginning of the year	(399)	(394)
Gain/(loss) in fair value movement in derivatives	967	(5)
<b>BALANCE AT THE END OF THE YEAR</b>	<b>568</b>	<b>(399)</b>

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.

### Land Revaluation Reserve

Balance at beginning of the year	33,081	30,285
Forestry land revaluations	6,524	2,874
Less deferred taxation	78	(78)
<b>BALANCE AT THE END OF THE YEAR</b>	<b>39,683</b>	<b>33,081</b>

### Carbon Credit Reserve

Balance at beginning of the year	8,019	5,697
Gain in carbon credits above initial recognition value	8,842	6,088
Less transferred to retained earnings	-	(3,766)
<b>BALANCE AT THE END OF THE YEAR</b>	<b>16,862</b>	<b>8,019</b>

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 2021 \$,000	As at 30 June 2020 \$,000
<b>Balance at the beginning of the year</b>	<b>50,929</b>	<b>41,453</b>
Net profit/(loss) for the year	36,871	12,678
Dividend distributions	(8,200)	(4,500)
Transfer to forestry reserve	(19,427)	(2,468)
Transfer from carbon credit reserve	-	3,766
<b>BALANCE AT THE END OF THE YEAR</b>	<b>60,173</b>	<b>50,929</b>

## 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 2021	Foreign currency 2021 FC'000	Contract value 2021 NZD'000	Fair value 2021 NZD'000	Fair value 2020 NZD'000
<b>Cashflow hedges</b>					
<b>Sell USD</b>					
Current	0.655	9,600	14,646	880	(304)
Non current	0.693	14,200	20,486	(2)	(30)
				<b>878</b>	<b>(334)</b>

### 2021

#### Financial Assets

	<1 yr	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	5 yrs	TOTAL
Trade and other receivables	3,927	-	-	-	-	-	3,927
Derivative financial instruments	928	283	-	-	-	-	1,211
	<b>4,855</b>	<b>283</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5,138</b>

#### Financial Liabilities

Trade and other payables	4,410	-	-	-	-	-	4,410
Derivative financial instruments	138	191	94	-	-	-	423
Borrowings	-	-	-	-	-	16,000	16,000
	<b>4,548</b>	<b>191</b>	<b>94</b>	<b>-</b>	<b>-</b>	<b>16,000</b>	<b>20,833</b>

**2020**

**<1 yr    1-2 yrs    2-3 yrs    3-4 yrs    4-5 yrs    5 yrs    TOTAL**

**Financial Assets**

Trade and other receivables	3,333	-	-	-	-	-	3,333
Derivative financial instruments	33	73	-	-	-	-	106
	<b>3,366</b>	<b>73</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,439</b>

**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
	<b>4,536</b>	<b>1,812</b>	<b>1,205</b>	<b>2,025</b>	<b>934</b>	<b>11,285</b>	<b>21,797</b>

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 of the financial instrument.

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

The company's risk management policy is to hedge a portion of its estimated 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 a maturity of less than 16 months from the reporting date. These contracts are generally designated as cash flow hedges.

The following parameters are used:

0-12 months	40-100%
13-24 months	25-75%
25-36 months	0-50%

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 be measured at amortised cost as they meet the conditions under IFRS 9.

Under NZ IFRS 9, the new impairment model requires the recognition of impairment provisions based on expected credit losses. It applies to financial assets classified at amortised cost. The introduction of the new impairment model has had no impact on the Company's financial assets classified as measured 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 Dunedin City Treasury Limited in accordance with group credit policy. The credit risk is limited because the counterparty has a high credit rating 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 have 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 2021 was determined as follows:

30 June 2021	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%	0.0%	0.0%	0.0%	
Gross carrying amount – trade receivables	1,012	2,860	-	32	3,904
Loss allowance	-	-	-	-	-

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

	As at 30 June 2021 \$,000	As at 30 June 2020 \$,000
Maturing in less than one year	3,000	-
Maturing between one and five years	-	3,000
Maturing after five years	-	-
	<b>3,000</b>	<b>3,000</b>

### 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 shortfall.

### 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 .6992.
- A parallel shift of +1% / -1% in the NZD market interest rate from the year end 90 day BBBB of 0.35%.

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.

	Notional Value \$'000	Interest rate				Foreign exchange				
		-100bp		+100bp		-10%		+10%		
		Equity	Profit	Equity	Profit	Equity	Profit	Equity	Profit	
Financial Assets										
Derivatives										
Currency Hedges – Sell USD	35,132	-	-	-	-	-	3,782	-	(3,094)	
Other Financial Assets	2,750	-	-	-	-	-	305	-	(250)	
Financial Liabilities										
Interest rate swaps	3,000	(15)	-	15	-	-	-	-	-	
Total increase/(decrease)		(15)	-	15	-	-	4,087	-	(3,344)	

1. Accounts receivable within City Forests Limited include \$1.923 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)

2021				2020			
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	-	1,211	-	1,211	-	106	-	106
New Zealand carbon credits	49,443	-	-	49,443	31,970	-	-	31,970
	<b>49,443</b>	<b>1,211</b>	<b>-</b>	<b>50,654</b>	<b>31,970</b>	<b>106</b>	<b>-</b>	<b>32,076</b>

### Financial Liabilities

Derivative financial liabilities	-	423	-	423	-	660	-	660
	<b>-</b>	<b>423</b>	<b>-</b>	<b>423</b>	<b>-</b>	<b>660</b>	<b>-</b>	<b>660</b>



## 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



## ACCOUNTING POLICY CONTINUED

losses from re-measuring the derivative, or for non-derivatives the foreign currency component of its carrying amount, are recognised in the statement of comprehensive income via other comprehensive income.

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

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

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity

is retained in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the statement of comprehensive income via surplus or deficit for the year.

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

The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non financial items that are eligible for hedge accounting. In addition, the effectiveness test has been

replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required.

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

## 12. TERM BORROWINGS

	As at 30 June 2021 \$,000	As at 30 June 2020 \$,000
Dunedin City Treasury loan facility	16,000	17,000
	16,000	17,000

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 2.85% and 4.39% (2020 3.50% – 4.39%).

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	16,000	17,000
Current	-	-
Non Current	16,000	17,000
	16,000	17,000

The repayment period on the term borrowings is as follows:

Current	-	-
Non Current	16,000	17,000
	16,000	17,000



## 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 2021 \$,000	As at 30 June 2020 \$,000
Net profit from continued operations	50,862	17,665
<b>Profit before income tax</b>	<b>50,862</b>	<b>17,665</b>
Tax thereon at 28%	14,241	4,946
<b>PLUS/(LESS) THE TAX EFFECT OF DIFFERENCES</b>		
Expenditure not deductible for taxation (Non-taxable income)	(256)	56
Under / (over) tax provision in prior years	6	(2)
Reinstatement of tax depreciation on specific buildings	-	(13)
<b>Tax effect of differences</b>	<b>(250)</b>	<b>41</b>
<b>Tax expense</b>	<b>13,991</b>	<b>4,987</b>
<b>TAX EXPENSE MADE UP AS FOLLOWS:</b>		
Continued operations	13,991	4,987
	<b>13,991</b>	<b>4,987</b>
Effective tax rate	27.41%	28.23%
<b>REPRESENTED BY</b>		
Current tax provision	4,551	4,676
Deferred tax provision	9,434	313
Prior period Current tax adjustment	7	(8)
Prior period Deferred tax adjustment	(1)	6
	<b>13,991</b>	<b>4,987</b>

### 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

2021	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	374	(78)	(19)	-	277	277
Employee provisions	(65)	-	(7)	(72)	-	(72)
Forest	32,859	-	7,555	-	40,414	40,414
Capitalised forestry costs	10,156	-	482	-	10,638	10,638
Revaluations of foreign exchange contracts	(93)	339	-	-	246	246
Revaluations of interest rate swaps	(62)	37	-	(25)	-	(25)
Revaluation of carbon credits	8,798	3,436	1,419	-	13,653	13,653
Other	(5)	-	3	(2)	-	(2)
<b>Balance at the end of the year</b>	<b>51,962</b>	<b>3,734</b>	<b>9,433</b>	<b>(99)</b>	<b>65,228</b>	<b>65,129</b>

2020	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Property, plant and equipment	317	78	(21)	-	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)
<b>Balance at the end of the year</b>	<b>49,198</b>	<b>2,443</b>	<b>321</b>	<b>(225)</b>	<b>52,187</b>	<b>51,962</b>



### 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 2021 \$,000	As at 30 June 2020 \$,000
<b>Purchases of goods and services from the Dunedin City Council:</b>		
Rates and property rentals	27	29
Other	-	3
	<b>27</b>	<b>32</b>

#### Dunedin City Holdings Limited

Managing Services	-	50
Dividends	8,200	4,500
	<b>8,200</b>	<b>4,550</b>

#### Delta Utility Services Limited

Roading & Earthmoving Services	400	540
<b>Payable to Delta Utility Services Limited</b>	<b>19</b>	<b>62</b>

#### Subvention payments/tax compensation

Dunedin Stadium Property Limited	-	1,016
Aurora Energy Limited	3,124	3,351
Dunedin City Holdings Limited	532	120
Delta Utility Services Limited	-	759
Dunedin City Council	1,027	1,248
	<b>4,683</b>	<b>6,494</b>

Subvention payments are calculated based on the tax effect of the losses transferred

<b>Loan from Dunedin City Treasury Limited</b> as at balance date	<b>16,000</b>	<b>17,000</b>
Loans received during the year	4,000	8,900
Loans paid during the year	5,000	5,500
Interest due to Dunedin City Treasury Limited as at balance date	39	36
Interest paid during the year	489	471
Interest rebate received	22	18
Net interest	<b>467</b>	<b>453</b>

## Compensation of key management personnel

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

	As at 30 June 2021 \$,000	As at 30 June 2020 \$,000
Salaries and Short-term benefits	1,105	1,080
	<b>1,105</b>	<b>1,080</b>

The remuneration of Directors is agreed annually by 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 2021 \$,000	As at 30 June 2020 \$,000
Net gain for the year	36,871	12,678
<i>Items Not Involving Cash Flows</i>		
Depreciation and loss on sale	870	576
Depletion of forest (cost of bush)	12,375	9,441
Deferred tax	9,433	319
Depreciation recovered/capital gains	(404)	(104)
Forestry revaluation	(38,164)	(11,628)
Allocation of carbon credits/revaluation carbon credits/surrender	(5,069)	(4,862)
Write (up)/down value of land	(741)	69
Interest portion of lease liability	21	50
<b>OTHER NON-CASH ITEMS</b>		
<i>Impact of Changes in Working Capital Items</i>		
(Increase)/Decrease in accounts receivable	(594)	1,505
(Increase)/Decrease in inventories	373	(469)
(Increase)/Decrease in prepayments	1	(11)
(Increase)/Decrease in tax refund due	889	(1,826)
Increase/(Decrease) in accounts payable	510	225
Increase/(Decrease) in other current liabilities	116	276
Increase/(Decrease) in other current assets	(143)	(581)
<b>Net cash inflows/(outflows) from operating activities</b>	<b>16,344</b>	<b>5,658</b>

## 17. ASSETS HELD FOR SALE

Freehold land held for sale	-	713
Other assets reclassified as held for sale	-	1,057
	<b>-</b>	<b>1,770</b>

## 18. CAPITAL EXPENDITURE COMMITMENTS

As at 30 June 2021 the Company has capital commitments of \$1,000,000 (2020 \$945,000).

## 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 2021 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. (2020 \$nil.) There are no contingent assets. (2020 \$nil).

## 20. LEASE LIABILITIES

	2021 \$,000	2020 \$,000
<b>Lease Liability</b>		
Opening balance	590	-
Liabilities recognised on Initial Transition	-	538
Additions	30	129
Lease repayments	(141)	(98)
Interest charged	22	21
	<b>501</b>	<b>590</b>
<b>Split by:</b>		
Current Liability	108	110
Non-current Liability	393	480
	<b>501</b>	<b>590</b>

The maturity of the Lease Liability is as follows:	< 1 year	1-2 years	2-3 years	4+ years	TOTAL
2021	108	104	70	219	<b>501</b>
2020	110	110	110	260	<b>590</b>



### ACCOUNTING POLICY

The Company follows the accounting policy for leases NZ IFRS 16.

The Company leases the office and some equipment. Rental contracts vary depending on the type of asset being leased. 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



## ACCOUNTING POLICY CONTINUED

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
- 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.

## 21. RECONCILIATION OF LIABILITIES FROM FINANCING ACTIVITIES

2021	Non cash changes					
	2021 \$'000	Cashflow \$'000	Capitalised Interest \$'000	Foreign Exchange Movement \$'000	Fair Value Changes \$'000	2021 \$'000
Long term borrowings	17,000	(1,000)	-	-	-	16,000
Derivative financial instruments	261	-	-	-	24	285
Short term derivative financial instruments	399	-	-	-	(261)	138
	<b>17,660</b>	<b>(1,000)</b>	<b>-</b>	<b>-</b>	<b>(237)</b>	<b>16,423</b>

2020	Non cash changes					
	2020 \$'000	Cashflow \$'000	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
	<b>14,233</b>	<b>3,400</b>	<b>-</b>	<b>-</b>	<b>27</b>	<b>17,660</b>

## 22. COVID-19

On March 11, 2020 the World Health Organisation declared the outbreak of COVID-19 (a novel Coronavirus) a pandemic.

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 2022 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. COVID-19 has resulted in significant increases in shipping costs for the export sector. The financial impact of the increases in shipping has been countered by rising log prices. Based on the budget for the 12 months ended 30 June 2022 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

## 23. EVENTS SUBSEQUENT TO BALANCE DATE

Subsequent to balance date the Company has contracts in place to purchase additional properties as part of its estate expansion program in total for \$10.75m (2020 \$Nil). These properties will settle during the coming financial year.

The 2021 COVID-19 lockdown has caused a cessation of most Company Operations. As per the 2020 lockdown harvest production is unable to occur during Level 4 lockdown. The trees are still growing and the volume remains available to harvest for catch-up post lockdown. The current lockdown has disrupted the planting season. A minimal volume (approximately 1-2k) of tree stocks have perished on site and will be unable to be planted.

The remaining tree stocks are being planted. Dispensation under the COVID-19 Health Order allows the Company to undertake minimal planting required to get tree stocks in the ground to preserve biological life.

Export ship loading is allowed under Level 4 provided cargo is available. At this stage no loading has occurred due to shipping partners not having enough cargo to complete the vessel at other ports and a ship is held at anchor off Port Chalmers by the ship owners awaiting further information on lockdown. The shipping situation is legally complex however the pandemic is a force majeure event.

No significant additional charges to CFL are expected at this stage. The reduction in supply caused by the New Zealand Level 4 lockdown is expected to be positive for markets over the medium term. The Company is not forecasting any long-term impact from lockdown and expects to fully recover operational and financial performance.

# STATEMENT OF SERVICE PERFORMANCE

FOR THE YEAR ENDED 30 JUNE 2021

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 12th February 2021. 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; 6.3% 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. Four new property purchases total 563 ha occurred during the year. The Company also purchased the joint venture partners tree crop share of the McCrostie Forestry Right. The historic Ferny Hill 175.9ha divestment occurred as contracted since 1996.
2a	No single customer will have received more than 30% of the Company's annual harvest by volume.	Our largest customer Daiken Southland received 11.96% 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: 45%, 21 customers. China: 55%, 7 customers. Vietnam <1%, 2 customers.
2c	The Company will participate in the New Zealand Emissions Trading Scheme (ETS) and may realise financial opportunities from the sale of carbon stored in the Company forests, in compliance with carbon policy.	The Company continues to participate in the ETS and has regularly monitored Carbon sales price during the period and considered its Carbon Sales policy at board level. No 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 30.7% by volume. (33.7% last year). Export log sales were 69.3% 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 10-year strategy plan incorporates Carbon. Future Carbon sequestration and surrender obligations are forecast in accordance with the Company's ETS obligations.
3a	The Company will meet its annual supply commitments to domestic customers taking into account agreed variations.	On an annualised basis all customers received their contracted volumes within plus or minus 10%. A number of domestic supply commitments were varied during the year at the request of the customer.
3b	The Company will meet its volume and log quality commitments to export shipping and export customer contracts.	All export commitments were met however purchase wood volumes were needed to supplement Company production for some shipments.

PERFORMANCE TARGET	ACHIEVEMENT
<b>4a</b> 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 388,664m <sup>3</sup> including billet wood. This is 111.4% of the sustainable yield of 349,000m <sup>3</sup> . Forecast harvest levels in the long term strategic plan for the next 3 years are; 360,351m <sup>3</sup> , 359,558m <sup>3</sup> and 349,424m <sup>3</sup> . All are within +/- 20% of the sustainable yield.
<b>4b</b> 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 696 inventory plots during the period.
<b>4c</b> A forest surveillance program will be in place as part of the National Surveillance program to assess the forest estate for pests and diseases.	The forest industry wide biosecurity surveillance program was operational during the year. No new incursions were reported in the Company estate.
<b>4d</b> The annual fire plan will be updated and operational by 1 October each year.	Fire plan update was completed in September 2020 prior to the start of the fire season.
<b>4e</b> 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.
<b>5a</b> The Company will have reviewed the best tree species, tree genetic selection and silvicultural management plan to apply to the annual operational areas. The Company will report annually on the percentage of species and pruned area by forest.	A comprehensive review of Company pruning strategy was conducted during the year. Percentage Pruned by Forest is: Silverpeaks; 56% Flagstaff; 85% Waipori; 23% Tokoititi; 68% <b>TOTAL; 59%</b>
<b>6a</b> 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.
<b>6b</b> 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.
<b>7a</b> 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.
<b>7b</b> Annual supply volumes to major wood processors (Pan Pac, Craigpine, Niagara & Daiken) will be tracked and reported.	Otago & Southland wood processors were supplied the following volumes during the period: Pan Pac: 13,367m <sup>3</sup> Craigpine: 6,878m <sup>3</sup> Niagara: 64m <sup>3</sup> Hollows: 9,901m <sup>3</sup> Gorton's: 18,868m <sup>3</sup> Otago Lumber: 7,303m <sup>3</sup> Daiken: 46,471m <sup>3</sup>

PERFORMANCE TARGET		ACHIEVEMENT
7c	The volume of wood supplied to Bioenergy uses will be tracked and reported.	Bioenergy: 15,718m <sup>3</sup>
8a	Lost time accident rates for staff and forest contractors will be minimised and not more than 15 lost time accidents per 1,000,000 hours worked.	12 month rolling lost time accident rate for staff and forest contractors was 11.5 lost time injuries per 1,000,000 hours.
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.	99 tests were conducted during the period. One positive random test was recorded, being 1.19%.
8c	Forest Stewardship Council Certification of the Forest Estate will be maintained.	Forest Stewardship Council Certification was maintained following audit in 2020.
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 rare 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, \$10,000 to the Yellow Eyed Penguin Trust and \$5,000 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 15 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 2021 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. 360 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 32.3 km of walking tracks and 24.7 km of mountain bike tracks in its forests.
12a	A continued and measured expansion of the forest estate will be part of Company Strategy, actioned and tracked annually.	Company has purchased 563ha 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.

PERFORMANCE TARGET		ACHIEVEMENT
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 small number of media interactions occurred throughout the period and the shareholder and board were communicated to within 24 hours informing them of the matter.
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 remuneration is greater than the living wage unless under training.
12e	Contribute to the Councils Carbon Neutrality Initiatives. Establish systems for measuring and publicly reporting carbon emissions by end of FY 2021, in a cost effective manner, with a view to then identifying and setting emissions reductions targets.	Carbon reporting has been completed for 2021 and reported in this annual report in accordance with DCHL group standards.

FORECASTS		\$'000	ACTUAL	\$'000
13a	Profit before income tax	16,053	Profit before income tax	50,862
13b	Profit after income tax	11,552	Profit after income tax	36,871
13c	Shareholders' funds to total assets	74.0%	Shareholders' funds to total assets	73.1%
13d	Dividend Distribution	4,200	Dividend Distribution	8,200
13e	Operating cashflow	9,469	Operating cashflow	16,344
13f	Capex	3,200	Capex	9,819
13g	Term debt	18,000	Term debt	16,000

## 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 2021

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 28 to 56, that comprise the statement of financial position as at 30 June 2021, 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 57 to 60.

In our opinion:

- the financial statements of the company on pages 28 to 56:
  - present fairly, in all material respects:
    - its financial position as at 30 June 2021; 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 equivalent to International Financial Reporting Standards; and
- the statement of service performance of the Company on pages 57 to 60 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 2021.

Our audit was completed on 2 November 2021. This is the date at which our opinion is expressed.

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

### **Basis for our opinion**

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

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

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

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

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

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

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

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

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

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

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures,

and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers, taken on the basis of these financial statements and the statement of service performance.

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

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

- We identify and assess the risks of material misstatement of the financial statements and the statement of service performance, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- We evaluate the appropriateness of the reported 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 3 to 27, 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

A brown dog, possibly a Weimaraner, is running towards the camera on a dirt path in a sun-dappled forest. The dog has its mouth open and is wearing a blue collar with a yellow tag. In the background, a person wearing an orange hat and dark clothing is walking away from the camera. The scene is lush with green foliage and trees.

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

**plant trees**





