

**CITY FORESTS LIMITED**

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# **CITY FORESTS LIMITED**

**ANNUAL REPORT  
FOR THE YEAR  
ENDED  
30 JUNE 2013**

# CITY FORESTS LIMITED

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# **CITY FORESTS LIMITED**

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## **COMPANY PARTICULARS**

**As at 30 June 2013**

### **DIRECTORS**

R D Liddell (Chairman) - B.Com., C.A. (P.P.), A.C.I.S., A.F.Inst.D.

M O Coburn - F.N.Z.I.M., A.F.Inst.D.

N G Evans - N.Z.C.E., D.B.A., M.Inst.D. (Retired 31.10.12)

S J McLauchlan - B.Com., F.C.A.(P.P.), A.F.Inst.D. (Retired 31.10.12)

J Gallaher - A.F.A., C.A., B Com., M.Inst.D. (Appointed 1.11.12)

T Allison - B.Com., B.A., C.A., M.Inst.D. (Appointed 1.11.12)

### **CHIEF EXECUTIVE OFFICER**

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

### **REGISTERED OFFICE**

31 Stafford Street

Dunedin

New Zealand

### **BANKERS**

Westpac Banking Corporation

### **SOLICITORS**

Gallaway Cook Allan

### **FINANCIAL ADVISERS**

Deloitte

### **AUDITOR**

Audit New Zealand on behalf of the Controller and Auditor General

# CITY FORESTS LIMITED

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## **DIRECTORS' REPORT** **For the Year Ended 30 June 2013**

The Directors of City Forests Limited are pleased to present their report on the activities of the Company for the year ended 30 June 2013.

### ***Principal Activities of the Company***

This report covers the financial year 1 July 2012 to 30 June 2013.

The principal activities of the Company are the growing, harvesting, processing and marketing of forest products from plantations it owns. The products are sold both in the domestic and export markets. It is also involved in the processing of chips from forest residues for the export trade through an associate company, Otago Chipmill Limited.

### ***Results for the Year Ended 30 June 2013***

	<b>\$000</b>
Operating Surplus before Income Tax	18,450
Less Income Tax	3,836
<b>Net Surplus for the Year</b>	<b><u>14,614</u></b>

### ***State of Affairs***

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

### ***Dividends***

The Directors declared and paid a total of \$4,400,000 in Dividends during the year made up of;

- an interim un-imputed dividend of \$1,200,000 in December 2012,
- an final un-imputed dividend of \$1,200,000 in June 2013,
- a special un-imputed dividend of \$2,000,000 in June 2013.

### ***Donations***

There have been donations made of \$8,480 during the year.

### ***Changes in Accounting Policies***

There have been no changes in accounting policy.

# CITY FORESTS LIMITED

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## **DIRECTORS' REPORT** Cont'd/... **For the Year Ended 30 June 2013**

### ***Reserves***

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

	<b>\$'000</b>
To Forestry Reserve	5,073
To Retained Earnings	5,141
To Hedging Reserve	(427)
To Land Revaluation Reserve	-

### ***Review of Operations***

This review of operations and the accompanying financial reports cover the 1 July 2012 to 30 June 2013 financial year.

During the year the Company has operated in a climate of improving operational returns for the forest industry as the economy recovers from the financial crisis. There have been signals of improving economic activity in New Zealand and the United States and continued growth across the Asia-Pacific region. This has led to strong log demand from our domestic sawmill customers and steady improvement in returns from export log sales. The Company has been active in the carbon market completing a number of pre-contracted sales of Carbon Credits or NZU's to emitters under the New Zealand Emissions Trading Scheme. This combination of log and carbon revenues has delivered a record financial performance for the company. Cash flows from these operating activities have funded \$4.4 million in shareholder dividends, \$10.6m of net debt reduction and \$1.56m of reinvestment in the forest asset through re-planting and silviculture operations.

Export log volumes to our principal South Korean customers have been steady during the year in a climate of increasing in market prices driven by Chinese demand. The key profitability drivers of market price, exchange rate and shipping costs, although variable, have improved to favourable levels that provide strong returns from harvesting. This has led to increasing demand and competition for export logs purchased "at wharf gate" by a number of log exporting companies who have established and / or increased their presence at Port Chalmers over the last two years. This has provided the Company with an opportunity to diversify export log sales and maximise returns from the forest estate.

Domestic log sales have been strong during the year as prices increase to compete with log export returns and domestic customers seek additional volumes to achieve improved economies of scale. The company has continued with a modest log stumpage tender program to take advantage of strong demand and a number of tenders have been successfully completed with harvesting under way by the successful parties. Overall the Company has increased the proportion of its annual harvest that is purchased by domestic customers to 45.2%, up from 40.8% during the previous year.

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

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# CITY FORESTS LIMITED

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## **DIRECTORS' REPORT** Cont'd/... **For the Year Ended 30 June 2013**

During the year the Company completed the last tranche of pre-contracted carbon credit sales at favourable prices and achieved revenue of approximately \$5.9m from carbon trading under the New Zealand Emissions Trading Scheme. The Company has retained sufficient carbon credits to meet any future liabilities on harvest.

Change in value of the forest asset has once again been a contributor to the Company's financial performance. The discounted cash flow valuation is impacted by a number of factors including market prices, production costs, forest harvest, forest growth, carbon valuation and discount rate interacting to deliver a gain of \$5m. Increases in the market price of logs had the most significant positive impact on the valuation although moderated by current to long term trend price averaging.

Forest replanting and tending operations have continued to add value to the forest asset. The Company replants all harvest areas and continues to prune for clear wood production on high productivity sites. No new land acquisitions have occurred during the year.

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

### ***Developments***

During the year the Company has focused on expanding its domestic log supply operations through the first year of operation of the Craigpine Timber Limited log supply contract. The Company has also successfully expanded the log stumpage tender program and has undertaken a number of successful cost saving initiatives in our forest operations and wood supply chain.

### ***Forest Valuation***

The value of the Company's forests increased from \$103.5m at 30 June 2012 to \$108.6m at 30 June 2013. This net \$5.0m increase was attributable to a combination of factors, primarily;

- Positive forest growth and maturity in the forest asset, offset by harvesting removals.
- Recent market price increases positively impacting the 5 year current to long term trend price curve. Although moderated by this methodology, current log price had a significant positive impact on forest value.
- Operational savings in harvesting and forest access costs increasing the forest value.

Due to the current low value of carbon a value has not been included in this year's valuation. The discount rate applied remained static at 7%.

### ***Sustainable Forest Management***

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

# CITY FORESTS LIMITED

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## **DIRECTORS' REPORT** Cont'd/... **For the Year Ended 30 June 2013**

### *Change of Directors*

Dr Norman Evans resigned from the Board in October 2012 after a 7 year term. Mr Stuart McLauchlan resigned from the Board in October 2012 after a 5 year term. The Company acknowledges the substantial contribution made by Dr Evans and Mr McLauchlan during their tenure as Directors.

Mr John Gallaher and Mr Tony Allison were appointed as Directors in November 2012.

Mr Ross Liddell retires by rotation in September 2013. Mr Liddell has been the Chairman of the Company since his appointment to the Board in November 2000. During his tenure Mr Liddell has overseen the substantial acquisition of the Silverpeaks Forest in 2002, the takeover of the Opio Forestry Fund in 2006 and the increase in Company annual harvest from 62,000m<sup>3</sup> in 2000 to 302,000m<sup>3</sup> in 2013. Mr Liddell will not be offering himself for re-election and will retire in September 2013 following a record financial year. Mr Liddell leaves the Company in a solid state of affairs with a forward strategy in place.

### *Outlook*

The outlook for the coming financial year is to deliver a strong financial result driven by solid export and domestic log sales that have been partially underpinned by foreign exchange hedging, fixed price domestic log stumpage tender sales and fixed price international shipping. The net result of these activities is the forecast provision of \$2.6m normal dividend plus a \$2m special dividend.

Looking to the longer term future we are optimistic that City Forests and the New Zealand Forest Industry have entered a period of generally more favourable returns in international log markets. This is driven by strong demand for wood products and other commodities by China and other Asian economies experiencing substantial economic growth. As experienced in the past it is expected that economic volatility will cause these returns to remain cyclic in nature throughout each financial year.

This period of opportunity coincides with the Company's annual harvest reaching long term sustainable levels of approximately 270,000 m<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 Asian economic growth.

Carbon revenues may once again become a contributor to company performance should carbon prices recover from current levels although this has not been included in financial forecasts. Carbon revenues provide financial recognition of the company's wider positive environmental impact.

The forecast favourable trading conditions are set to deliver increased dividends underpinned by solid profits and positive cashflow over the next 5 years.

### *Social and Environmental Contributions [Triple Bottom Line]*

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

# CITY FORESTS LIMITED

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## **DIRECTORS' REPORT** Cont'd/... **For the Year Ended 30 June 2013**

The community continues to benefit from the significant network of walking and cycle tracks, picnic areas and other public amenities maintained by City Forests Limited. The Company continues to encourage the public use of its forests in a controlled fashion with numerous recreational activities occurring during the year.

Our financial contribution to the community has been modest and a number of donations totalling \$8,480 have been made to various community groups and charities. Included in this is non cash donations of firewood have been made to some clubs and charities.

During the year the Company's forests stored carbon balance increased by approximately 3,776 tonnes of Carbon or 13,847 tonnes of CO<sub>2</sub>, when compared to 30 June 2012. Approximately 3,188 tonnes of carbon were emitted from operations giving a net carbon positive footprint for the year of 588 tonnes of Carbon or 2,156 tonnes CO<sub>2</sub>.

Of the total stored carbon in the Company's forests, the net proportion attributable to the Company's Kyoto forests (planted post 1989) was an annual increase of approximately 146,404 tonnes of carbon or 536,815 tonnes of CO<sub>2</sub> based on our registered post 1989 forest area. This significant increase is due to improved measurement associated with the move from generic MAF carbon lookup tables to inventory based Company specific Carbon Yield Tables.

### ***Financial Statements***

The audited financial statements for the year ended 30 June 2013 are attached to this report.

### ***Directors' Interests in Contracts***

Refer to Directors' Declarations of Interest section on pages 11 to 13 and the Related Parties Transactions note 31.

### ***Auditors***

The Controller and Auditor General have contracted the audit to Audit New Zealand. Auditor's remuneration is set out in Note 5 on page 31.

### ***Employee Remuneration***

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

***Table 1; Employee Remuneration and Other Benefits, \$000***

	100 - 110	120 - 130	140 - 150	150 - 160	170-180	250 - 260
Number of Employees	1	1	1	1	1	1



# CITY FORESTS LIMITED

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## **DIRECTORS' REPORT** Cont'd/... **For the Year Ended 30 June 2013**

### ***Information on the Directors of City Forests Limited***

<b>Director</b>	<b>Responsibilities</b>	<b>Remuneration \$000</b>	
		<b>2013</b>	<b>2012</b>
Ross D Liddell	Chairman, Remunerations Sub Committee	48	37
Paul R Hudson	Deputy Chairman, Remunerations Sub Committee. (Retired 31 <sup>st</sup> March 2012)	-	18
Norman G Evans	Non-Executive Director (Retired 31 <sup>st</sup> October 2012)	7	21
Michael O Coburn	Non-Executive Director,	27	21
Stuart J McLauchlan	Non-Executive Director (Retired 31 <sup>st</sup> October 2012)	7	21
John Gallaher	Non-Executive Director (Appointed 1 <sup>st</sup> November 2012)	19	-
Tony Allison	Non-Executive Director (Appointed 1 <sup>st</sup> November 2012)	19	-

### ***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 dedicated team ably led by Grant Dodson, the Company's Chief Executive Officer.

## CITY FORESTS LIMITED

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### **DIRECTORS' REPORT** Cont'd/... **For the Year Ended 30 June 2013**

#### *Events Subsequent to Balance Date*

No significant events have occurred subsequent to balance date.

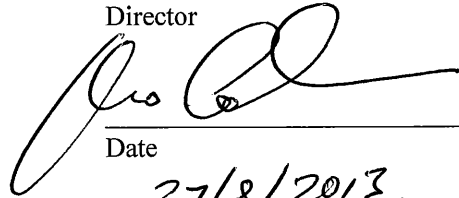
On behalf of the Board of Directors:

R D Liddell  
Chairman



Date  
27/8/13

M O Coburn  
Director



Date  
27/8/2013.

# CITY FORESTS LIMITED

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## Information on the Directors of City Forests Limited

### Director & Qualifications

### Declarations of Interest

#### **Ross D Liddell (Chairman)**

B.Com., C.A. (P.P.), A.C.I.S., A.F.Inst.D.

Chairman, Browns Barkly Limited  
Chairman, Dunedin City Treasury Limited  
Chairman, James Maurice Properties Limited  
Chairman, Palmer & Son Limited  
Chairman, Palmers Mechanical Limited  
Chairman, Palmer M H Limited  
Chairman, Viblock Limited  
Chairman, Victory Lime 2000 Limited  
Deputy Chairman, Aurora Energy Limited  
(retired 31<sup>st</sup> October 2012)  
Deputy Chairman, *DELTA* Utility Services Limited  
(retired 31<sup>st</sup> October 2012)  
Director, AB Lime Limited  
Director, Hunterfield Investments Ltd  
Director, McMahan Investments Limited  
(retired 8<sup>th</sup> August 2012)

Date appointed November 2000

#### **Michael O Coburn (Non-Executive Director)**

F.N.Z.I.M., A.F.Inst.D.

Director, Arthur Barnett Limited  
Director, Lake Hayes Estate Limited  
Director, New Zealand Land Fund Limited  
Director, Aurora Energy Limited  
(retired 31<sup>st</sup> October 2012)  
Director, *DELTA* Utility Services Limited  
(retired 31<sup>st</sup> October 2012)  
Director, *DELTA* Investments Limited  
(retired 31<sup>st</sup> October 2012)  
Director, Jack Tewa Foundation  
Director, New Zealand Aquifer Limited  
Shareholder (via a trust), Locations Realty Queenstown Limited

Date appointed September 2003

#### **Norman G Evans (Non-Executive Director)**

N.Z.C.E., D.B.A., M.Inst.D.

Chairman, Enabling Pty Limited (Aus)  
Director, Aurora Energy Limited  
(retired 31<sup>st</sup> October 2012)  
Director, *DELTA* Utility Services Limited  
(retired 31<sup>st</sup> October 2012)  
Director, Halo Investment Management Limited  
Director, Halo Fund No 1 Limited  
Director, Lifetime Health Diary Limited

Date appointed July 2005

Retired 31<sup>st</sup> October 2012

# CITY FORESTS LIMITED

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## Director & Qualifications

## Declarations of Interest

### **Stuart J McLauchlan (Non-Executive Director)**

B Com., F.C.A. (P.P.), A.F.Inst.D.

Director, Cargill Hotel 2002 Limited  
Director, Dunedin Casinos Limited  
Director, Scenic Circle Hotels and Subsidiaries  
Director, Otago & Southland Employers Association  
Chairman, Dunedin International Airport Limited  
Director, AD Instruments Pty Limited  
Chairman, NZ Sports Hall of Fame  
Pro Chancellor, University of Otago  
Partner, GS McLauchlan & Co  
Director, Aurora Energy Limited  
Director, *DELTA* Utility Services Limited  
Director, University of Otago Foundation Studies Limited  
Chairman, Scott Technology Limited  
Director, Lund South Limited  
Director, South Canterbury Subsidiaries  
Chairman, Pharmac  
Director, ZNH Limited  
Director, USC Investment Limited  
Director, *DELTA* Investments Limited  
Chairman, UDC Finance Limited  
Director, HTS 110 Limited  
Director, Roxdale Foods Limited

Date appointed June 2007

Retired 31<sup>st</sup> October 2012

### **John Gallaher (Non-Executive Director)**

A.F.A., C.A., B Com., M.Inst.D

Director, BasketBall NZ Development Limited  
Director, BasketBall NZ Limited  
Director, Gamma Investments Limited  
Director, Mastah Investments Limited  
Director, Fund Managers Otago Limited  
Director, Granwood Holdings Limited  
Director, NZ Catholic Education Office Limited  
Director, NZCEO Finance Limited  
Chairman, TracPlus Global Limited  
Director, TracPlus Security Nominees Limited  
Director, The Car Cleaning Centre (Christchurch West) Limited  
Director, Otago Rescue Helicopter Limited  
Director, Otago Southland Diocesan Board of Management  
Director, CIANZ  
Chairman, Tui Motu Foundation Inc  
Trustee, William Sheriff Charitable Trust  
Trustee, Otago Rescue Helicopter Trust  
Chairman, United Way NZ Inc

Date appointed 1<sup>st</sup> November 2012

## **CITY FORESTS LIMITED**

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### **Director & Qualifications**

### **Declarations of Interest**

#### **Tony Allison (Non-Executive Director)**

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

Director, AA Cleaners (Otago) Limited  
Director, Southern Teamco 2008 Limited  
Director, St Clair Beach Resort Limited

Date appointed 1<sup>st</sup> November 2012

# CITY FORESTS LIMITED

## TREND STATEMENT

	Year Ended 30 Jun 13	Year Ended 30 Jun 12	Year Ended 30 Jun 11	Year Ended 30 Jun 10	Year Ended 30 Jun 09
<u>FINANCIAL PERFORMANCE</u>	\$'000	\$'000	\$'000	\$'000	\$'000
Domestic Revenue	13,590	8,652	6,503	6,263	5,397
Export Revenue	18,983	30,869	35,451	33,255	23,685
Other Revenue	2,652	2,703	3,912	2,118	1,491
New Zealand Carbon Credits	6,172	2,316	6,850	3,264	-
Gain in fair value of forestry asset	7,046	3,503	738	6,174	3,311
<b>Total Revenue</b>	<b>48,443</b>	<b>48,043</b>	<b>53,454</b>	<b>51,074</b>	<b>33,884</b>
Percentage Increase (Annualised)	(0.8%)	(10.1%)	4.7%	50.7%	11.8%
Inventory Movement	(479)	(820)	695	(182)	(138)
<b>Total Expenses</b>	<b>29,514</b>	<b>41,705</b>	<b>42,867</b>	<b>41,577</b>	<b>33,716</b>
Percentage Increase	(29.2%)	(2.7%)	3.1%	23.3%	17.2%
<b>Operating Surplus before Taxation and Impairment Charges</b>	<b>18,450</b>	<b>5,518</b>	<b>11,282</b>	<b>9,315</b>	<b>30</b>
Impairment Charges	-	3,000	-	-	-
Income Tax	3,836	641	1,748	2,201	(335)
<b>Surplus after Income Tax and Impairment Charges</b>	<b>14,614</b>	<b>1,877</b>	<b>9,534</b>	<b>7,114</b>	<b>365</b>
Share of Retained Surplus in Associate Company	-	-	-	-	-
<b>Total Surplus after Taxation</b>	<b>14,614</b>	<b>1,877</b>	<b>9,534</b>	<b>7,114</b>	<b>365</b>
<u>SHAREHOLDERS' FUNDS</u>					
Shareholders Funds	91,725	81,938	83,838	75,961	70,869
Operating Cash flow	17,263	5,130	13,266	5,397	2,091
Dividends Paid - Normal	2,400	2,200	2,000	1,850	1,850
- Special	2,000	-	-	-	-
Value of Forest	108,589	103,528	100,335	99,840	94,035
Surplus after tax to shareholders funds	15.93%	2.29%	11.93%	9.40%	0.52%
Proprietorship Ratio	61.89%	56.10%	56.69%	51.32%	51.14%
Net Forest Revaluation	5,073	2,522	531	4,322	2,318
Net Land Revaluation	-	(505)	(10)	-	162
<u>FOREST STATISTICS</u>	(whole no's)				
Forest harvested (m <sup>3</sup> )	302,096	266,281	263,530	241,961	210,803
Volume traded (m <sup>3</sup> )	1,917	27,151	20,564	22,397	16,103
Forest planted (ha)	520	732	811	349	589
Total forest (ha)	16,114	16,129	16,011	15,997	16,044
Forest purchased (ha)	-	-	-	-	-

# CITY FORESTS LTD

## Statement of Comprehensive Income For the Year Ended 30 June 2013

		Year to 30 June 2013 \$'000	Year to 30 June 2012 \$'000
	Note		
Revenue	3	38,291	33,313
Financial income	4	1,984	1,928
Gain/(loss) in fair value of forestry asset	28	7,046	3,503
<b>Total revenue</b>		<b>47,321</b>	<b>38,744</b>
Inventory movement		289	(232)
<i>Less expenses</i>			
Contractors		11,977	13,973
Depreciation and amortisation expense		472	326
Directors fees		127	118
Employee expenses		1,320	1,155
Financial expenses	6	1,338	1,563
Other expenses	5	13,945	14,255
<b>Total expenses</b>		<b>29,179</b>	<b>31,390</b>
<b>Profit before tax</b>		<b>18,431</b>	<b>7,122</b>
Income tax expense	9&32	3,831	1,930
<b>Net Profit for the Year from continued operations</b>		<b>14,600</b>	<b>5,192</b>
Discontinued operations	32	14	(3,315)
<b>NET PROFIT/(LOSS) AFTER TAX</b>		<b>14,614</b>	<b>1,877</b>
<b>Other comprehensive income</b>			
Gains/(loss) on cash flow hedges taken to equity		(594)	(1,489)
Tax effect of cash flow hedges taken to equity		167	417
Increase/(decrease) in land revaluation		-	(505)
Other comprehensive income for the year		(427)	(1,577)
<b>Total Comprehensive Income for the Year</b>		<b>14,187</b>	<b>300</b>

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

## CITY FORESTS LTD

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### Statement of Changes in Equity For the Year Ended 30 June 2013

		Year to 30 June 2013 \$'000	Year to 30 June 2012 \$'000
	Note		
Equity at beginning of year		81,938	83,838
Total comprehensive income for the year		14,187	300
<b>Distribution to owners</b>			
Dividends	8	(4,400)	(2,200)
Equity at end of year		91,725	81,938

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



# CITY FORESTS LTD

## Balance Sheet

As at 30 June 2013

	Note	As at 30 June 2013 \$'000	As at 30 June 2012 \$'000
<b>Equity</b>			
Share Capital	10	25,691	25,691
Forestry reserve	11	46,000	40,927
Land revaluation reserve	11	14,970	14,970
Hedging reserve	11	(655)	(228)
Retained earnings	12	5,719	578
<b>Total Equity</b>		<b>91,725</b>	<b>81,938</b>
<b>Current Liabilities</b>			
Trade and other payables	13	1,303	2,147
Other current liabilities	15	353	1,303
Employee Provisions	16	120	163
Derivative financial instruments	14	1,293	1,695
Current portion of term borrowings	17	6,078	5,419
Provision for taxation		611	29
<b>Total current liabilities</b>		<b>9,758</b>	<b>10,756</b>
<b>Non-Current Liabilities</b>			
Derivative financial instruments	14	288	2
Term borrowings	17	18,973	27,987
Other liabilities	15	320	320
Deferred tax liability	18	27,135	25,028
Employee provisions	16	-	20
<b>Total non-current liabilities</b>		<b>46,716</b>	<b>53,357</b>
<b>Total Liabilities</b>		<b>56,474</b>	<b>64,113</b>
<b>TOTAL EQUITY PLUS LIABILITIES</b>		<b>148,199</b>	<b>146,051</b>

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


# CITY FORESTS LTD

## Balance Sheet Cont'd/.... As at 30 June 2013

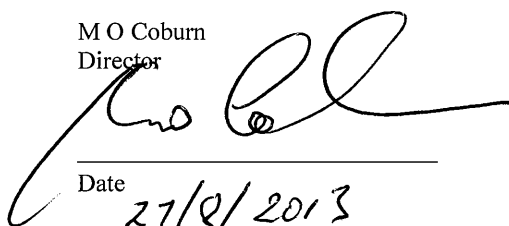
		As at 30 June 2013 \$'000	As at 30 June 2012 \$'000
<b>Current Assets</b>	<b>Note</b>		
Cash and cash equivalents	22	3,262	1,011
Trade and other receivables	23	1,447	5,032
Derivative financial instruments	14	603	812
Inventories	25	896	1,375
Prepayments		195	51
Other current assets	24	56	69
Intangibles - New Zealand carbon credits	30	386	552
<b>Total current assets</b>		<b>6,845</b>	<b>8,902</b>
<b>Non-Current Assets</b>			
Derivative financial instruments	14	67	560
Property, plant and equipment	29	32,339	32,737
Forestry assets	28	108,589	103,528
Investments in equity accounted investees	26	308	308
Investments	26	1	1
Intangibles – computer software	27	50	15
<b>Total non-current assets</b>		<b>141,354</b>	<b>137,149</b>
<b>TOTAL ASSETS</b>		<b>148,199</b>	<b>146,051</b>

For and on behalf of the Board of Directors

R D Liddell  
Chairman

  
Date 27/8/13

M O Coburn  
Director

  
Date 27/8/2013

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

# CITY FORESTS LTD

## Statement of Cash Flows For the Year Ended 30 June 2013

		Year to 30 June 2013 \$'000	Year to 30 June 2012 \$'000
	Note		
<b>Cash Flows from Operating Activities</b>			
<i>Cash was provided from</i>			
Receipts from customers		43,147	40,867
Interest received		22	6
Dividends from other investments		200	175
Effect of exchange rate changes		1,757	2,225
		45,126	43,273
<i>Cash was disbursed to</i>			
Payments to suppliers and employees		25,740	36,763
Interest paid		1,142	1,304
Income Tax		820	76
Subvention payments		161	-
		27,863	38,143
<b>Net Cash Inflows/(Outflows) from Operating Activities</b>	<b>31</b>	17,263	5,130
<b>Cash Flows from Investing Activities</b>			
<i>Cash was provided from</i>			
Sale of property, plant and equipment		40	77
		40	77
<i>Cash was disbursed to</i>			
Purchase of property, plant and equipment		151	298
Purchase of Forest Assets – Cost of bush		1,433	1,810
		1,584	2,108
<b>Net Cash Inflows/(Outflows) from Investing Activities</b>		<u>(1,544)</u>	<u>(2,031)</u>

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

# CITY FORESTS LTD

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## Statement of Cash Flows Cont'd/.... For the Year Ended 30 June 2013

	Year to 30 June 2013 \$'000	Year to 30 June 2012 \$'000
<b>Cash Flows from Financing Activities</b>		
<i>Cash was provided from</i>		
Proceeds from borrowings	9,793	8,776
	<u>9,793</u>	<u>8,776</u>
<i>Cash was disbursed to</i>		
Repayment of borrowings	18,861	9,573
Dividends paid	4,400	2,200
	<u>23,261</u>	<u>11,773</u>
<b>Net Cash Inflows / (Outflows) from Financing Activities</b>	<u>(13,468)</u>	<u>(2,997)</u>
<b>Net Increase / (Decrease) in Cash Held</b>	2,251	102
Cash and short term deposits at the beginning of the year	<u>1,011</u>	<u>909</u>
<b>CASH AND SHORT TERM DEPOSITS AT THE END OF THE YEAR</b>	<u><u>3,262</u></u>	<u><u>1,011</u></u>
<b>Composition of Cash</b>		
Cash and short term deposits	<u>3,262</u>	<u>1,011</u>

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

# **CITY FORESTS LIMITED**

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## **Notes to the Financial Statements For the Year Ended 30 June 2013**

### **1. REPORTING ENTITY**

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

The registered address of the company is 31 Stafford Street, Dunedin.

City Forests Limited is a profit orientated entity.

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

### **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 27<sup>th</sup> August 2013.

#### **Basis of Accounting**

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

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

#### **Associate Entities**

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

# CITY FORESTS LIMITED

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## **Notes to the Financial Statements Cont'd/.... For the Year Ended 30 June 2013**

### **Critical Accounting Estimates and Assumptions**

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

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

### **Revenue Recognition**

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and GST.

Revenue from services rendered is recognised when it is probable that the economic benefits associated with the transaction will flow to the entity. The stage of completion at balance date is assessed based on the value of services performed to date as a percentage of the total services to be performed.

Sales of goods are recognised when significant risks and rewards of owning the goods are transferred to the buyer, when the revenue can be measured reliably and when management effectively ceases involvement or control.

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

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

### **Leasing**

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

### **The Company As Lessor**

Amounts due from lessees under finance leases are recorded as receivables at the amount of the company's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the company's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

# CITY FORESTS LIMITED

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## Notes to the Financial Statements Cont'd/.... For the Year Ended 30 June 2013

### The Company As Lessee

Assets held under finance leases are recognised as assets of the company at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability.

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease.

Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

### Foreign Currencies

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

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

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

### Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in the income statement in the year in which they are incurred, with the exception of the Ministry of Forestry loans.

### Government Loans

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

# CITY FORESTS LIMITED

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## **Notes to the Financial Statements Cont'd/.... For the Year Ended 30 June 2013**

### **Employee Entitlements**

Entitlements to salary and wages and annual leave are recognised when they accrue to employees. This includes the estimated liability for salaries and wages and annual leave as a result of services rendered by employees up to balance date at current rates of pay.

Entitlements to long service leave and retirement gratuities are calculated on an actuarial basis and are based on the reasonable likelihood that they will be earned by employees and paid by the company.

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

### **Good and Service Tax (GST)**

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

### **Taxation**

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

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

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

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

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



# CITY FORESTS LIMITED

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## Notes to the Financial Statements Cont'd/.... For the Year Ended 30 June 2013

### Property, Plant and Equipment

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

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

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

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

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

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

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

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

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

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

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

Depreciation rates and methods used are as follows:

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

# CITY FORESTS LIMITED

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## Notes to the Financial Statements Cont'd/.... For the Year Ended 30 June 2013

### **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 income statement in the year the item is derecognised.

### **Forests**

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

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

### **Research and Development Expenditure**

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

### **Impairment of assets excluding goodwill**

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

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

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

# CITY FORESTS LIMITED

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## Notes to the Financial Statements Cont'd/.... For the Year Ended 30 June 2013

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

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

### Inventories

Inventories reported in the balance sheet include:

- Log inventories  
Valued at net realisable value less estimated point of sale costs.
- Wood processing inventories  
Products which as a result of processing are valued at lower of cost or net realisable value.
- Other inventory  
Valued at the lower of cost and net realisable value.

### Cash and cash equivalents

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

### Financial Instruments

Financial assets and financial liabilities are recognised on the company's balance sheet when the company becomes a party to the contractual provisions of the instrument.

#### *Trade and other receivables*

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

### Investments

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

#### *Investments in debt and equity securities*

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

# CITY FORESTS LIMITED

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## **Notes to the Financial Statements Cont'd/.... For the Year Ended 30 June 2013**

### **Trade and other payables**

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

### **Trade and other receivables**

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

### **Borrowings**

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

### *Financial Liability and Equity*

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities.

### **Derivative financial instruments and hedge accounting**

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

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

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

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

# CITY FORESTS LIMITED

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## Notes to the Financial Statements Cont'd/.... For the Year Ended 30 June 2013

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

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

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

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

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

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

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

### Carbon credits

Emissions units held are treated as intangible assets, and initially recorded at fair value.

- Fair value is cost in the case of purchased units
- Fair value is initial market value in the case of government granted units
- Emissions unit fair value is marked to market (revalued) annually at 30 June subsequent to initial recognition and bi-annually thereafter
- The difference between initial fair value or previous annual revaluation and disposal or revaluation value of the units is treated as revenue if positive or expense if negative
- Emissions obligations are recognized as a current or future liability depending on the legislated liability period
- Emissions Liability is recorded at the market value of emissions units at the end of the period
- Increases in emissions liabilities at 30 June are treated as expenses and reductions are treated as revenue

# CITY FORESTS LIMITED

## Notes to the Financial Statements Cont'd/.... For the Year Ended 30 June 2013

### Standards and Interpretations effective in the current period

#### Those with disclosure impact:

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

The following are the new or revised Standards or Interpretations in issue that are not yet required to be adopted by entities preparing financial statements for periods ending on 30<sup>th</sup> June 2012.

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
NZ IFRS 11 'Joint Arrangements' (refer Note 1)	1 January 2013	30 June 2014
NZ IFRS 12 'Disclosure of Interests in Other Entities' (refer Note 1)	1 January 2013	30 June 2014
NZ IFRS 13 'Fair Value Measurement' (refer Note 1)	1 January 2013	30 June 2014
NZ IAS 27 'Separate Financial Statements' (revised 2011) (refer Note 1)	1 January 2013	30 June 2014
NZ IAS 28 'Investments in Associates and Joint Ventures' (revised 2011) (refer Note 1)	1 January 2013	30 June 2014
Amendments to NZ IFRS 7 'Financial Instruments : Disclosures' – Offsetting Financial Assets and Financial Liabilities (refer Note 1)	1 January 2013	30 June 2014
Improvements to IFRS: 2009 – 2011 cycle	1 January 2013	30 June 2014
Amendments to NZ IAS 32 'Financial Instruments: Presentation' – Offsetting Financial Assets and Financial Liabilities (refer Note 1)	1 January 2014	30 June 2015
NZ IFRS 9 'Financial Instruments'	1 January 2015	30 June 2016
Revised NZ IFRS 9 'Financial Instruments' (2010) (refer Note 2)	1 January 2015	30 June 2016
Amendments to NZ IFRS 9 and NZ IFRS 7 Mandatory Effective Date and Transition Disclosures	1 January 2015	30 June 2016

Note 1 – Applicable to Profit Oriented Entities only

Note 2 – The revised NZ IFRS 9 adds guidance on the classification and measurement of financial liabilities and derecognition of financial instruments. The effective date is the same as the previous version of NZ IFRS 9, with earlier adoption permitted.

#### Those with no impact:

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

### Provisions

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

# CITY FORESTS LIMITED

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## Notes to the Financial Statements Cont'd/.... For the Year Ended 30 June 2013

### Intangible Assets

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

### Statement of Cashflows

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

### Changes in accounting policies

There have been no changes in accounting policies.

	As at 30 June 2013 \$'000	As at 30 June 2012 \$'000
<b>3. OPERATING REVENUE</b>		
Sales revenue	31,935	39,729
New Zealand carbon credits	6,172	2,316
Gain on sale of property, plant and equipment	15	15
Other revenue	169	67
	<u>38,291</u>	<u>42,127</u>
<b>4. FINANCIAL INCOME</b>		
Interest on other investments	24	6
Dividends / bonus issue	200	175
Effect of exchange rate gains	1,757	2,226
Movement in commodities	3	6
	<u>1,984</u>	<u>2,413</u>
No interest is earned on impaired or restricted assets		
<b>5. OTHER EXPENSES</b>		
Audit fees - for audit of financial statements	33	33
Donations	8	7
Loss on sale of property, plant and equipment	7	-
Rental expense on operating leases	72	52
Research expenditure	118	87
Cost of bush applied	4,132	2,878
Shipping costs	6,151	9,867
Other expenses	3,424	3,798
	<u>13,945</u>	<u>16,722</u>

# CITY FORESTS LIMITED

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## Notes to the Financial Statements Cont'd/.... For the Year Ended 30 June 2013

	As at 30 June 2013 \$'000	As at 30 June 2012 \$'000
<b>6. FINANCIAL EXPENSES</b>		
Interest - related parties	1,093	1,300
Facility fees – related parties	245	263
Total financial expenses	<u>1,338</u>	<u>1,563</u>
<b>7. EARNINGS PER SHARE</b>		
<b>Basic earnings per share</b> is calculated by dividing the net surplus/(deficit) attributable to the shareholder of the company by the weighted average number of ordinary shares on issue during the year	56.89c	7.31c
<b>Number of shares</b>		
Weighted average number of ordinary shares	25,690,522	25,690,522



# CITY FORESTS LIMITED

## Notes to the Financial Statements Cont'd/.... For the Year Ended 30 June 2013

### 8. DIVIDENDS

	As at 30 June 2013 \$'000	As at 30 June 2012 \$'000
The following dividends were paid by the company:		
Interim dividend - \$0.0428 per share	1,200	1,100
Final dividend - \$0.0428 per share	1,200	1,100
Special dividend – \$0.0778 per share	2,000	-
	<u>4,400</u>	<u>2,200</u>

### 9. INCOME TAX

Net profit/loss for the year (including discontinued activities)	18,450	2,518
<b>Profit before income tax</b>	<u>18,450</u>	<u>2,518</u>
Tax thereon at 28%	5,166	705
<i>Plus/(less) the Tax Effect of Differences</i>		
Income not assessable for taxation	(1,317)	-
Expenditure not deductible for taxation	2	2
Under / (over) tax provision in prior years	41	(17)
Fully imputed dividends	(56)	(49)
Tax effect of differences	<u>(1,330)</u>	<u>(64)</u>
<b>Tax expense</b>	<u>3,836</u>	<u>641</u>
Tax expense made up as follows:		
Continued operations	3,831	1,930
Discontinued operations	5	(1,289)
	<u>3,836</u>	<u>641</u>
Effective tax rate 20.79% was 20.93%	20.93%	25.5%
<i>Represented by</i>		
Current tax provision	1,535	132
Deferred tax provision	2,260	526
Under / (over) tax provision in prior years	41	(17)
	<u>3,836</u>	<u>641</u>
<b>Income tax - Imputation Credit Account</b>		
Balance at the beginning of the year	39	776
Credits attached to dividends received	80	75
Taxation paid/payable	1,431	78
Credits attached to dividends paid	-	(890)
	<u>1,550</u>	<u>39</u>

# CITY FORESTS LIMITED

## Notes to the Financial Statements Cont'd/.... For the Year Ended 30 June 2013

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

#### Tax Rate

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

	As at 30 June 2013 \$'000	As at 30 June 2012 \$'000
<b>10. EQUITY - Share Capital</b>		
<b>Issued Capital</b>	25,691	25,691
The company has issued 25,690,522 ordinary shares and these are fully paid. Fully paid ordinary shares carry 1 vote per share and carry the right to dividends and pro rata share of net assets on winding up of the company.		
<b>11. RESERVES</b>		
<u>Forestry Reserve</u>		
Balance at beginning of the year	40,927	38,405
Transfer from retained earnings	5,073	2,522
<b>Balance at the end of the year</b>	46,000	40,927
<u>Hedging Reserve</u>		
Balance at beginning of the year	(228)	844
Gain/(loss) in fair value movement in derivatives	(427)	(1,072)
<b>Balance at the end of the year</b>	(655)	(228)
<u>Land Revaluation Reserve</u>		
Balance at beginning of the year	14,970	15,475
Forestry land revaluations	-	(505)
<b>Balance at the end of the year</b>	14,970	14,970

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

# CITY FORESTS LIMITED

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## Notes to the Financial Statements Cont'd/.... For the Year Ended 30 June 2013

### 11. RESERVES Cont'd/....

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

	As at 30 June 2013 \$'000	As at 30 June 2012 \$'000
<b>12. RETAINED EARNINGS</b>		
Balance at the beginning of the year	578	3,423
Net profit/(loss) for the year	14,614	1,877
Dividend distributions	(4,400)	(2,200)
Transfer to forestry reserve	(5,073)	(2,522)
Balance at the end of the year	5,719	578
<b>13. TRADE AND OTHER PAYABLES</b>		
Trade payables	1,303	2,147
	1,303	2,147

The amounts due to customers under construction contracts at 30 June 2013 were \$nil (2012: \$nil).

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

# CITY FORESTS LIMITED

## Notes to the Financial Statements Cont'd/.... For the Year Ended 30 June 2013

### 14. FINANCIAL INSTRUMENTS

	As at 30 June 2013 \$'000	As at 30 June 2012 \$'000
<u>Financial Assets</u>		
Trade and other receivables	1,447	5,032
Derivative financial instruments	670	1,372
	<u>2,117</u>	<u>6,404</u>
<i>Analysed as:</i>		
Current	2,050	5,844
Non-Current	67	560
	<u>2,117</u>	<u>6,404</u>
<u>Financial Liabilities</u>		
Trade and other payables	1,303	2,147
Derivative financial instruments	1,581	1,697
Borrowings	25,051	33,406
	<u>27,935</u>	<u>37,250</u>
<i>Analysed as:</i>		
Current	8,674	9,261
Non-Current	19,261	27,989
	<u>27,935</u>	<u>37,250</u>

### Currency derivatives

#### *Currency Risk*

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

# CITY FORESTS LIMITED

## Notes to the Financial Statements Cont'd/.... For the Year Ended 30 June 2013

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

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

Outstanding Contracts	Average exchange rate 2013	Foreign currency 2013 FC'000	Contract value 2013 NZD'000	Fair value 2013 NZD'000	Fair value 2012 NZD'000
<b>Cashflow hedges</b>					
<b>Sell USD</b>					
Current	0.729	7,000	9,600	499	778
Non current	0.757	9,000	11,886	(221)	558
<b>Buy USD</b>					
Current	-	-	-	-	30
Non current	-	-	-	-	-
<b>Sell AUD</b>					
Current	-	-	-	-	4
Non current	-	-	-	-	-
				278	1,370

<u>2013</u>	<1 yr	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	5 yrs	Total
<u>Financial Assets</u>							
Trade and other receivables	1,447	-	-	-	-	-	1,447
Derivative financial instruments	603	67	-	-	-	-	670
	2,050	67	-	-	-	-	2,117
<u>Financial Liabilities</u>							
Trade and other payables	1,303	-	-	-	-	-	1,303
Derivative financial instruments	1,293	132	156	-	-	-	1,581
Borrowings	6,078	2,294	1,686	1,686	1,686	11,621	25,051
	8,674	2,426	1,842	1,686	1,686	11,621	27,935
<u>2012</u>	<1 yr	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	5 yrs	Total
<u>Financial Assets</u>							
Trade and other receivables	5,032	-	-	-	-	-	5,032
Derivative financial instruments	812	508	52	-	-	-	1,372
	5,844	508	52	-	-	-	6,404
<u>Financial Liabilities</u>							
Trade and other payables	2,147	-	-	-	-	-	2,147
Derivative financial instruments	1,695	2	-	-	-	-	1,697
Borrowings	5,419	1,022	1,593	1,639	1,230	22,503	33,406
	9,261	1,024	1,593	1,639	1,230	22,503	37,250

# CITY FORESTS LIMITED

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## Notes to the Financial Statements Cont'd/.... For the Year Ended 30 June 2013

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

#### Interest Rate Swaps

##### *Credit and Interest Rate Risk*

The company uses interest rate swaps to manage its exposure to interest rate movements on its multi-option facility borrowings by swapping a proportion of those borrowings from floating rates to fixed rates. The treasury policy recommends that the level of the fixed interest hedge should be limited to a series of ranges within set debt time periods.

The interest rate agreements are held with independent and high credit quality financial institutions in accordance with group credit policy. The credit risk is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies. The carrying amount of financial assets recorded in the financial statements represents the company's maximum exposure to credit risk.

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

	As at 30 June 2013 \$'000	As at 30 June 2012 \$'000
Maturing in less than one year	5,000	3,000
Maturing between one and five years	5,000	10,000
Maturing after five years	8,000	5,000
	<u>18,000</u>	<u>18,000</u>

##### *Liquidity Risk*

Liquidity risk represents the company's ability to meet its contractual obligations. The company evaluates its liquidity requirements on an ongoing basis. In general the company generates sufficient cash flows from its operating activities to meet its obligations arising from its financial liabilities and has credit lines in place to cover potential shortfalls.

##### *Credit Risk*

The company's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful debts.

The company has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

# CITY FORESTS LIMITED

## Notes to the Financial Statements Cont'd/.... For the Year Ended 30 June 2013

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

#### Sensitivity Analysis

Based on historic movements and volatilities the following movements are reasonably possible over a twelve month period:

- Proportional foreign exchange rate movement of -10% (depreciation of NZD) and a +10% (appreciation of the NZD) against the USD, from the year end rate of .7933 and against the AUD from the year end rate of .8523.
- A parallel shift of +1% / -1% in the NZD market interest rate from the year end 90 day BBR of 2.64%.

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

	Carrying amount \$'000		Interest rate -100bp	+100bp		Foreign exchange -10%	+10%	
	Profit	Equity Profit	Equity Profit	Equity Profit	Equity Profit	Equity Profit	Equity Profit	
<b><u>Financial Assets</u></b>								
<b><u>Derivatives</u></b>								
Currency Hedges – Sell USD	21,486	-	-	-	-	2,241	-	(1,833)
Other Financial Assets	1,447	-	-	-	-	-	-	-
<b><u>Financial Liabilities</u></b>								
Interest rate swaps	18,000	(587)	-	553	-	-	-	-
Total increase/(decrease)		(587)	-	553	-	2,241	-	(1,833)

1. Cash and cash equivalents include deposits at call which are floating interest rates. Sensitivity to a 1% movement in rates is \$nil.
2. Accounts receivable within City Forests Limited are all New Zealand debtors
3. Derivatives subject to the hedge accounting regime are managed by the company to be 100% effective and thus there is no sensitivity to equity change in either interest rates or exchange rates.
4. Borrowings are subject to an interest rate hedging policy. Sensitivity to any movement in the interest rate is limited to the effect on the amount of floating rate debt that exceeds the amount of the fixed rate hedge.
5. The carrying value of the derivative has been calculated based on rates on each individual contract.

# CITY FORESTS LIMITED

## Notes to the Financial Statements Cont'd/.... For the Year Ended 30 June 2013

### 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).

	2013			
	Level 1	Level 2	Level 3	Total
	NZ \$'000	NZ \$'000	NZ \$'000	NZ \$'000
<b>Financial assets</b>				
Derivative financial assets	-	670	-	670
New Zealand carbon credits	386	-	-	386
	386	670		1,056
<b>Financial liabilities</b>				
Derivative financial liabilities	-	-	-	-
	-	1,581	-	1,581
	-	1,581	-	1,581

### 15. OTHER LIABILITIES

	As at 30 June 2013 \$'000	As at 30 June 2012 \$'000
(i) <u>Current Liabilities</u>		
Other current liabilities	353	1,303
	353	1,303
(ii) <u>Non-Current Liabilities</u>		
Other non-current liabilities – Ferny Hill land liability	320	320
	320	320



# CITY FORESTS LIMITED

## Notes to the Financial Statements Cont'd/.... For the Year Ended 30 June 2013

	As at 30 June 2013 \$'000	As at 30 June 2012 \$'000
<b>16. EMPLOYEE PROVISIONS</b>		
<u>Current liabilities</u>		
Long service leave	28	36
Annual leave and days in lieu	92	112
Gratuities	-	15
	120	163
<u>Long service leave</u>		
Opening balance	36	44
Increase/(decrease) in provision	(8)	(8)
Closing balance	28	36
<u>Annual leave and days in-lieu</u>		
Opening balance	112	161
Increase/(decrease) in provision	(20)	(49)
Closing balance	92	112
<u>Gratuities</u>		
Opening balance	15	40
Increase/(decrease) in provision	(15)	(25)
Closing balance	-	15
<u>Non-current liabilities</u>		
<u>Gratuities</u>		
Opening balance	20	26
Increase/(decrease) in provision	(20)	(6)
Closing balance	-	20
<b>17. TERM BORROWINGS (secured)</b>		
Dunedin City Treasury loan facility	15,000	21,382
Forestry loans	10,051	12,024
	25,051	33,406

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

The forestry loans are from the Ministry of Primary Industries. They are fixed rate loans secured by registered first mortgage over certain land assets and are covered by repayment insurance. Each loan is associated with an individual stand of trees and is repayable by equal quarterly repayments over the 10 years commencing January 2012. The interest capitalised for the year ended 30 June 2013 was \$714 (2012 \$758).

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## CITY FORESTS LIMITED

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### Notes to the Financial Statements Cont'd/.... For the Year Ended 30 June 2013

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

The repayment period on the term borrowings is as follows:

	As at 30 June 2013 \$'000	As at 30 June 2012 \$'000
Less than one year	6,078	5,419
Repayable between one to two years	2,294	1,022
Repayable between two to three years	1,686	1,593
Repayable between three to four years	1,686	1,639
Repayable between four to five years	1,686	1,230
Repayable later than five years	11,621	22,503
	<u>25,051</u>	<u>33,406</u>

The weighted average interest rate for the Dunedin City Treasury Limited loan facility, ranged between 4.96 and 7.52% (2012 4.00 – 7.52%).

The weighted average interest rates for the forestry loans is 6.09%, (2012: between 4.5% and 6.5%).

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

Multi-option note facility	15,000	21,382
Forestry loans	9,708	11,718

# CITY FORESTS LIMITED

## Notes to the Financial Statements Cont'd/.... For the Year Ended 30 June 2013

### 18. DEFERRED TAX LIABILITIES AND ASSETS

	2013 \$'000	2013 \$'000	2013 \$'000	2013 \$'000	2013 \$'000	2013 \$'000
	Opening Balance Sheet	Charged To Equity	Charged to Income	Closing Balance Sheet Assets	Liabilities	Net
Property, plant and equipment	227	-	62	-	289	289
Employee provisions	(72)	-	21	51	-	(51)
Forest	15,916	-	1,973	-	17,889	17,889
Capitalised forestry costs	8,894	-	373	-	9,267	9,267
Revaluations of foreign exchange contracts	384	(306)	-	-	78	78
Revaluations of interest rate swaps	(472)	139	-	333	-	(333)
Other	151	-	(155)	4	-	(4)
<b>Balance at the end of the year</b>	<b>25,028</b>	<b>(167)</b>	<b>2,274</b>	<b>388</b>	<b>27,523</b>	<b>27,135</b>

	2012 \$'000	2012 \$'000	2012 \$'000	2012 \$'000	2012 \$'000	2012 \$'000
Property, plant and equipment	1,076	-	(849)	-	227	227
Employee provisions	(79)	-	7	72	-	(72)
Forest	14,935	-	981	-	15,916	15,916
Capitalised forestry costs	8,557	-	337	-	8,894	8,894
Revaluations of foreign exchange contracts	634	(250)	-	-	384	384
Revaluations of interest rate swaps	(305)	(167)	-	472	-	(472)
Other	54	-	97	-	151	151
<b>Balance at the end of the year</b>	<b>24,872</b>	<b>(417)</b>	<b>573</b>	<b>544</b>	<b>25,572</b>	<b>25,028</b>

# CITY FORESTS LIMITED

## Notes to the Financial Statements Cont'd/.... For the Year Ended 30 June 2013

### 19. CAPITAL EXPENDITURE COMMITMENTS

As at 30 June 2013 \$'000	As at 30 June 2012 \$'000
------------------------------------	------------------------------------

There are no capital commitments as at 30 June 2013 (2012 \$nil)

-	-
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### 20. CONTINGENT LIABILITIES

There are no contingent liabilities as at 30 June 2013 (2012 \$nil)

### 21. LEASE COMMITMENTS

#### (i) Minimum operating lease commitments

Payable within one year	77	77
Payable between one to five years	40	114
Payable later than five years	-	3
	117	194

#### (ii) Minimum finance lease payments

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

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

### 22. CASH AND CASH EQUIVALENTS

Cash and cash equivalents	1,854	1,011
Short term deposits	1,408	-
	3,262	1,011

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

### 23. TRADE AND OTHER RECEIVABLES

Trade receivables	1,446	5,030
Due from related Parties - Otago Chipmill Limited	1	2
	1,447	5,032

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

# CITY FORESTS LIMITED

## Notes to the Financial Statements Cont'd/.... For the Year Ended 30 June 2013

### 24. OTHER CURRENT ASSETS

	As at 30 June 2013 \$'000	As at 30 June 2012 \$'000
Goods and services tax	56	69
	<u>56</u>	<u>69</u>

### 25. INVENTORIES

Raw materials and stores	644	354
Finished goods	252	1,021
	<u>896</u>	<u>1,375</u>

### 26. INVESTMENTS

#### Non-Current Investments

Shares and units in other companies and funds  
Shares and advance in Otago Chipmill Ltd

1	1
308	308
<u>309</u>	<u>309</u>

#### Otago Chipmill Balance Sheet

Total assets	569	1,352
Total liabilities	6	93
Net assets	<u>563</u>	<u>1,259</u>

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

Revenue	717	2,429
Profit before income tax	(301)	161
Income tax	10	73
Profit after income tax	<u>(291)</u>	<u>88</u>

### 27. INTANGIBLE ASSETS

#### Computer software

Balance at the beginning of the year	15	24
Plus purchases	47	7
Less amortisation expenses	(12)	(16)
	<u>50</u>	<u>15</u>

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

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

# CITY FORESTS LIMITED

## Notes to the Financial Statements Cont'd/.... For the Year Ended 30 June 2013

### 28. FORESTRY ASSETS

	As at 30 June 2013 \$'000	As at 30 June 2012 \$'000
Balance at the beginning of the year	103,528	100,335
Add Costs capitalised in establishing forests during the year	2,147	2,568
Increase in forest from acquisition	-	-
Forest revaluation	7,046	3,503
Less Log sales	(4,132)	(2,878)
	<u>108,589</u>	<u>103,528</u>
Gains/(losses) arising from changes in fair value less point of sale costs;		
attributable to physical changes	(12,137)	364
attributable to price changes	<u>17,198</u>	<u>2,828</u>

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

The valuation methodology used establishes the fair value of the collective forest and land resource and then subtracts the value of the forestry land at \$25,113,800 value (see note 28). The NZ IFRS valuation rules require that the value is calculated under the assumption that a stand will not be replanted once felled irrespective of the sustainable forest policy of the directors. The change in the value of the forest from year to year is reflected in the Income Statement.

Fair value requires calculating the present value of expected net cash flows using a post-tax discount rate. This discount rate used by the company is 7.0%.

At 30 June 2013 the company owned stands of trees on 16,114 hectares of a total land holding of 19,987 hectares. During the year the company harvested approx. 302,096 m3 of logs from its forests.

City Forests Limited is exposed to financial risks associated with USD log price and the USD and AUD sawn timber prices. This risk is managed through its financial management policy described within note 14, Financial Instruments. City Forests Limited is a long-term forestry investor that expects log prices to fluctuate within a commodity cycle. It is not possible to hedge against 100% of the price cycle but the company does manage harvest volumes to minimise the impact of the commodity price cycle over the longer term.

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

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

# CITY FORESTS LIMITED

## Notes to the Financial Statements Cont'd/.... For the Year Ended 30 June 2013

### 29. PROPERTY, PLANT AND EQUIPMENT

	Land Other Valuation	Forest Land Valuation	Building Cost	Roads Bridges Cost	Plant Equipment Cost	Sub-Total
2013	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Cost or Valuation</b>						
Balance at beginning of year	994	25,114	1,913	6,349	7,359	41,729
Increase through acquisition	-	-	-	-	-	-
Purchases/revaluation	-	-	-	29	8	37
Disposals	-	-	-	-	(25)	(25)
Transfer to property intended for sale	-	-	-	-	-	-
Reclassified as intangibles	-	-	-	-	-	-
<b>Balance at end of year</b>	<b>994</b>	<b>25,114</b>	<b>1,913</b>	<b>6,378</b>	<b>7,342</b>	<b>41,741</b>
<b>Accumulated depreciation/impairment</b>						
Balance at beginning of year	110	-	1,035	3,268	4,913	9,326
Depreciation	-	-	27	162	184	373
Impairment	-	-	-	-	-	-
Disposals	-	-	-	-	(14)	(14)
Transfer to property intended for sale	-	-	-	-	-	-
	<b>110</b>	<b>-</b>	<b>1,062</b>	<b>3,430</b>	<b>5,083</b>	<b>9,685</b>
<b>Balance at end of year</b>	<b>884</b>	<b>25,114</b>	<b>851</b>	<b>2,948</b>	<b>2,259</b>	<b>32,056</b>
Comprising - Cost	-	-	851	2,948	2,259	6,058
Valuation	884	25,114	-	-	-	25,998

The land valuations were obtained from Quotable Valuation which is the valuation company used by the relevant city and district councils. The revaluation movement in the land for the year ended 30 June 2013 was nil (2012 \$nil). All other asset classes are shown at cost.

# CITY FORESTS LIMITED

## Notes to the Financial Statements Cont'd/.... For the Year Ended 30 June 2013

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

		Motor Vehicles	Office Equipment	
	Sub-Total	Cost	Cost	Total
<b>2013 Cont'd/....</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>Cost or Valuation</b>				
Balance at beginning of year	41,729	883	387	42,999
Increase through acquisition	-	-	-	-
Purchases/ revaluation	37	44	61	142
Disposals	(25)	(110)	(88)	(223)
Transfer to property held for sale	-	-	-	-
Reclassified as intangibles	-	-	(61)	(61)
<b>Balance at end of year</b>	<b>41,741</b>	<b>817</b>	<b>299</b>	<b>42,857</b>
<b>Accumulated depreciation</b>				
Balance at beginning of year	9,326	582	354	10,262
Reclassified as intangibles	-	-	-	-
Depreciation	373	78	10	461
Impairment	-	-	-	-
Disposals	(14)	(97)	(94)	(205)
Transfer to property held for sale	-	-	-	-
	<b>9,685</b>	<b>563</b>	<b>270</b>	<b>10,518</b>
<b>Balance at end of year</b>	<b>32,056</b>	<b>254</b>	<b>29</b>	<b>32,339</b>
Comprising - Cost	6,058	254	29	6,341
Valuation	25,998	-	-	25,998



# CITY FORESTS LIMITED

## Notes to the Financial Statements Cont'd/.... For the Year Ended 30 June 2013

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

	Land Other Valuation	Forest Land Valuation	Buildings Cost	Roads Bridges Cost	Plant Equipment Cost	Sub-Total
2012	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Cost or Valuation</b>						
Balance at beginning of year	1,089	25,524	1,913	6,218	7,304	42,048
Increase through acquisition	-	-	-	-	-	-
Purchases/revaluation	(95)	(410)	-	131	57	(317)
Disposals	-	-	-	-	(2)	(2)
Transfer to property intended for sale	-	-	-	-	-	-
Reclassified as intangibles	-	-	-	-	-	-
<b>Balance at end of year</b>	<b>994</b>	<b>25,114</b>	<b>1,913</b>	<b>6,349</b>	<b>7,359</b>	<b>41,729</b>
<b>Accumulated depreciation</b>						
Balance at beginning of year	-	-	264	3,104	2,456	5,824
Depreciation	-	-	45	164	354	563
Impairment	110	-	726	-	2,103	2,939
Disposals	-	-	-	-	-	-
Transfer to property intended for sale	-	-	-	-	-	-
	<b>110</b>	<b>-</b>	<b>1,035</b>	<b>3,268</b>	<b>4,913</b>	<b>9,326</b>
<b>Balance at end of year</b>	<b>1,089</b>	<b>25,534</b>	<b>1,645</b>	<b>2,595</b>	<b>4,959</b>	<b>35,822</b>
Comprising - Cost	-	-	878	3,081	2,446	6,405
Valuation	884	25,114	-	-	-	25,998

# CITY FORESTS LIMITED

## Notes to the Financial Statements Cont'd/.... For the Year Ended 30 June 2013

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

		Motor Vehicles	Office Equipment	
<b>2012</b> Cont'd/....	Sub-Total \$'000	Cost \$'000	Cost \$'000	Total \$'000
<b>Cost or Valuation</b>				
Balance at beginning of year	42,048	940	384	43,372
Increase through acquisition	-	-	-	-
Purchases/ revaluation	(317)	92	11	(214)
Disposals	(2)	(149)	-	(151)
Transfer to property held for sale	-	-	-	-
Reclassified as intangibles	-	-	(8)	(8)
<b>Balance at end of year</b>	<b>41,729</b>	<b>883</b>	<b>387</b>	<b>42,999</b>
<b>Accumulated depreciation</b>				
Balance at beginning of year	5,824	534	328	6,686
Reclassified as intangibles	-	-	-	-
Depreciation	563	105	21	689
Impairment	2,939	56	5	3,000
Disposals	-	(114)	-	(113)
Transfer to property held for sale	-	-	-	-
	<b>9,326</b>	<b>583</b>	<b>354</b>	<b>10,262</b>
<b>Balance at end of year</b>	<b>32,403</b>	<b>301</b>	<b>33</b>	<b>32,737</b>
Comprising - Cost	6,405	301	33	6,739
Valuation	25,998	-	-	25,998

### 30. NEW ZEALAND CARBON CREDITS

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

A forest owner with forests established after 31<sup>st</sup> December 1989, under the Act, may opt to join the Emissions Trading Scheme. Post-89 forests will earn carbon credits (NZU's) from 1<sup>st</sup> January 2008 and these may be traded within New Zealand or converted into Assigned Amount Units (AAU's) and sold internationally. City Forests Limited completed registration of the Post-89 forests under the Emissions Trading Scheme in January 2010. These forests have been sequestering carbon under the scheme since 1<sup>st</sup> January 2008. Subsequent to our Post-89 registration, the New Zealand Government has allocated City Forests Limited a total of 881,364 Post-89 derived NZU's, being the carbon sequestered by these forests during the 2008 to 2013 calendar years. In 2013 80,000 Post-89 NZU's (2012 80,000) have been sold to emitters with New Zealand interests, and 200,000 pre 1990 NZU's have been sold,

# CITY FORESTS LIMITED

## Notes to the Financial Statements Cont'd/.... For the Year Ended 30 June 2013

As at 30<sup>th</sup> June 2013, 214,277 units were unsold (2012 81,176). Under the accrual principle, the unsold credits have been valued based on the current market prices and recognised in the financial statements. The value has been carried in the financial statements as follows:

	As at 30 June 2013 \$'000	As at 30 June 2012 \$'000
New Zealand carbon credits	386	552

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

	As at 30 June 2013 \$'000	As at 30 June 2012 \$'000
Net gain/(loss) for the year	14,614	1,877
<i>Items Not Involving Cash Flows</i>		
Depreciation and loss on sale	480	705
Depletion of forest	4,132	2,878
Deferred tax	2,274	574
Depreciation recovered/capital gains	(15)	(15)
Forestry revaluation	(7,047)	(3,503)
Impairment of fixed assets	-	3,000
Other non-cash items		
<i>Impact of Changes in Working Capital Items</i>		
(Increase)/Decrease in accounts receivable	3,585	(1,040)
(Increase)/Decrease in inventories	480	820
(Increase)/Decrease in prepayments	(143)	130
(Increase)/Decrease in tax refund due	583	(8)
Increase/(Decrease) in accounts payable	(1,850)	(531)
Increase/(Decrease) in other current liabilities	-	(56)
Increase/(Decrease) in current assets	170	299
Net cash inflows/(outflows) from operating activities	17,263	5,130

# CITY FORESTS LIMITED

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## Notes to the Financial Statements Cont'd/.... For the Year Ended 30 June 2013

### 32. DISCONTINUED OPERATIONS

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

The Directors determined an impairment on the wood processing fixed assets as at 30<sup>th</sup> June 2012 of \$3,000,000.

	<b>30 June 2013 \$'000</b>	<b>30 June 2012 \$'000</b>
Revenue	1,122	8,814
Financial income	-	485
<b>Total revenue</b>	<b>1,122</b>	<b>9,299</b>
Movement in inventory	(769)	(588)
<i>Less expenses</i>		
Contractors	20	1,431
Depreciation	172	379
Employees expenses	14	1,597
Impairment of wood processing assets	-	3,000
Raw materials	-	4,441
Other expenses	130	2,467
<b>Total expenses</b>	<b>334</b>	<b>13,315</b>
<b>Net Profit/(Loss) before tax</b>	<b>19</b>	<b>(4,604)</b>
Income tax expense (benefit)	5	1,289
<b>Profit/(Loss) for the period from discontinued operations</b>	<b>14</b>	<b>(3,315)</b>

# CITY FORESTS LIMITED

## Notes to the Financial Statements Cont'd/.... For the Year Ended 30 June 2013

### 33. RELATED PARTY TRANSACTIONS

Amounts receivable from and payable to related parties at balance date are disclosed in notes, 13, 22 and 17.

#### Transactions with Dunedin City Council Group

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

	As at 30 June 2013 \$'000	As at 30 June 2012 \$'000
Sales of services to the Dunedin City Council:		
Contracting services	-	-
	-	-
Purchases of goods and services from the Dunedin City Council:		
Rates and property rentals	12	11
Administration and office services	2	2
Other	1	105
	15	118
Payable to Dunedin City Council as at balance date	-	-
Payable to Delta Utility Services Limited	24	69
Payable to Dunedin City Holdings Limited	14	14
Subvention payments:		
Dunedin Venues Management Limited	161	-
	161	-
Loan from Dunedin City Treasury Limited as at balance date	15,000	21,382
Loans received during the year	8,385	8,776
Loans paid during the year	16,175	8,730
Interest due to Dunedin City Treasury Limited as at balance date	101	150
Interest paid during the year	1,093	1,300
Other payments including facility fees	245	263
Short term deposits to Dunedin City Treasury Limited	1,408	-
Interest due from Dunedin City Treasury Limited	2	-
Purchases of goods and services from Delta	412	756

# CITY FORESTS LIMITED

## Notes to the Financial Statements Cont'd/.... For the Year Ended 30 June 2013

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

#### Transactions with Associate Companies

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

	Year ended 30 June 2013 \$'000	Year ended 30 June 2012 \$'000
Sales of goods and services to associate companies:		
Forest products sold to Otago Chipmill Limited	6	783
Management fees received from Otago Chipmill Limited	22	25
Purchases of goods and services from associate companies	7	1
At year end the following amounts were owed to and from the Associated Company:		
Receivable from associate companies	1	2

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

#### Transactions with companies in which directors have an interest:

- During the course of the year:

Mr R D Liddell had related party interests with the following organisations during the year.

Chairman, Palmers Mechanical Limited		
Plant Maintenance	5	5
Chairman, Dunedin City Treasury Limited		
Interest on Loan	1,093	1,300
Facility Fees	245	263
Director, Blackhead Quarries Limited		
Purchase of Roding Materials	99	103

Mr S J McLauchlan had related party interests with the following organisations during the year.

Director, Otago & Southland Employers Association		
Subscriptions	1	1
Pro Chancellor, University of Otago		
Purchase of Services	-	1

# CITY FORESTS LIMITED

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## Notes to the Financial Statements Cont'd/.... For the Year Ended 30 June 2013

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

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

	Year ended 30 June 2013 \$'000	Year ended 30 June 2012 \$'000
Director, Dunedin City Holdings Limited		
Management Services	50	50
Dividends	4,400	2,200
Director, Delta Utility Services Limited		
Roading & Earthmoving Services	412	756

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

Payable to:		
Blackhead Quarries Limited	6	30
	<hr/>	<hr/>
Palmers Mechanical	-	2
	<hr/>	<hr/>

#### Compensation of key management personnel

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

Salaries and Short-term benefits	975	929
Post-Employment benefit	-	-
	<hr/>	<hr/>
	975	929

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

## **CITY FORESTS LIMITED**

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### **Notes to the Financial Statements Cont'd/.... For the Year Ended 30 June 2013**

#### **34. ADOPTION OF NEW REVISED STANDARDS AND INTERPRETATIONS**

No standards have been adopted during the year which have had a materials impact on the financial statements. There are no standards in issue but not yet effective which would materially impact the amounts recognised in the financial statements.



# City Forests Limited

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## STATEMENT OF SERVICE PERFORMANCE

### For the Year Ended 30 June 2013

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

<u>Performance Targets</u>	<u>Achievement</u>
1a. A comprehensive review of the Company's long term strategic plan will have been completed with a particular focus on investigations into opportunities for increased profitability through wood process innovation and greater control over marketing and distribution.	The Company's long term strategic plan has been reviewed as part of the annual budget process. A strategy day was held on 2 <sup>nd</sup> July 2013 involving the Board and Senior Managers.
1b. Opportunities for expanding the Company's scale will have been investigated.	The strategic plan incorporates a modest forest expansion program.
1c. Opportunities for balancing the Company's exposure to United States Dollar revenues taking into account market and product margin factors will have been implemented.	The Company maintains a significant USD foreign exchange forward cover position in line with Company policy.  The exit from Wood Processing and subsequent increase in domestic log sales and the log stumpage tender program have increased NZD revenues.
2a. Strategic marketing plan supporting the regional wood processing industry will be completed.	The strategic plan incorporates domestic log sales and stumpage tender sales providing logs for regional wood processing.
3a. The marketing strategy and plan will be updated.	A Sales and Marketing plan is in place and has been reported in the board papers. Our export log marketing strategy has been reviewed during the year and reported in the Board Papers. Log stumpage tender program has been expanded.
3b. No single customer will have received more than 30% of the Company's annual harvest by volume.	Our largest customer Craigpine Timber Limited received 16.94% of the Company's annual harvest volume.
3c. The company will maximise financial opportunities from the sales of Carbon stored in the company forests.	The Company has completed significant Carbon sale transactions during the period.
4a. Contracted monthly log delivery requirements for customers will be met within plus or minus ten percent 80% of the time.	On an annualised basis all customers received their contracted volumes within plus or minus 10%. Variations were by mutual agreement.
5a. The annual harvest from the forest estate will be at least 200,000m <sup>3</sup> .	The annual harvest from the CFL forest estate was 302,096m <sup>3</sup> .
5b. An annual forest health report will have been completed by 30 <sup>th</sup> June 2013.	An annual forest health report was completed in November 2012.
6a. At least 500ha of the Company's forests will have been pruned and thinned.	1086 ha of the Company's forest was pruned and thinned.

# City Forests Limited

<u>Performance Targets</u>	<u>Achievement</u>
7a. At least one new forest management technique will be introduced as a result of research findings.	Forest plantings of clone seedling have been established across a range of sites. Forest spatial information system has been significantly upgraded. The Company has reverted to 2 lift pruning as a result of research.
8a. Forest Stewardship Council Certification will be maintained.	Forest Stewardship Council Certification was maintained following audit in the last quarter of 2012.
8b. Lost time accident rates for staff and contractors will be reduced to a maximum 40 lost time injuries per 1,000,000 hours.	Lost time accident rates for staff and contractors was 14.5 lost time injuries per 1,000,000 hours. (26.1 in 2012)
8c. All forests will have current forest management plans which identify social and environmental, as well as economic outputs.	The company has a comprehensive forest management plan that has been externally audited as part of the FSC certification process. This covers all forest areas.
9a. The Company will have in place an environmental management system which will include procedures for sustainability monitoring.	An environmental management system is in place with on-going monitoring of environmental values.
9b. The Company will prepare and report on a carbon budget.	The Company has prepared and reported on a carbon budget in the annual accounts.
10a. Every staff member will have a training plan in place. Contractors in the areas of silviculture and harvesting will have a training plan in place for their employees.	Forest staff members are working towards achieving Personal Development Plans. Other training provided as necessary. Contractors are required to have a training plan for their employees.
10b. Each harvesting crew will have a trained "log maker".	Each harvesting crew had a trained log maker in place during the year.
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. All the Company's forest management plans will have a section allocated to Recreation and Educational use of the forests.	The Company's forest management plans have sections allocated to recreation and education.

## **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 2013**

The Auditor-General is the auditor of City Forests Limited (the company). The Auditor-General has appointed me, Ian Lothian, 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 her behalf.

We have audited:

- the financial statements of the company on pages 15 to 56, that comprise the balance sheet as at 30 June 2013, 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 58.

## **Opinion**

### **Financial statements and statement of service performance**

In our opinion:

- the financial statements of the company on pages 15 to 56:
  - comply with generally accepted accounting practice in New Zealand; and
  - give a true and fair view of the company's:
    - financial position as at 30 June 2013; and
    - financial performance and cash flows for the year ended on that date; and
- the statement of service performance of the company on pages 57 to 58:
  - complies with generally accepted accounting practice in New Zealand; and
  - gives a true and fair view of the company's service performance achievements measured against the performance targets adopted for the year ended 30 June 2013.

## **Other legal requirements**

In accordance with the Financial Reporting Act 1993 we report that, in our opinion, proper accounting records have been kept by the company as far as appears from an examination of those records.

Our audit was completed on 30 August 2013. This is the date at which our opinion is expressed.

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

## **Basis of opinion**

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

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

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

An audit also involves evaluating:

- the appropriateness of accounting policies used and whether they have been consistently applied;
- the reasonableness of the significant accounting estimates and judgements made by the Board of Directors;
- the adequacy of all disclosures in the financial statements and statement of service performance; and
- the overall presentation of the financial statements and statement of service performance.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements and statement of service performance.

In accordance with the Financial Reporting Act 1993, we report that we have obtained all the information and explanations we have required. We believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

## **Responsibilities of the Board of Directors**

The Board of Directors is responsible for preparing financial statements and a statement of service performance that:

- comply with generally accepted accounting practice in New Zealand;
- give a true and fair view of the company's financial position, financial performance and cash flows; and
- give a true and fair view of its service performance.

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

The Board of Directors' responsibilities arise from the Local Government Act 2002 and the Financial Reporting Act 1993.

## **Responsibilities of the Auditor**

We are responsible for expressing an independent opinion on the financial statements and statement of service performance and reporting that opinion to you based on our audit. Our responsibility arises from section 15 of the Public Audit Act 2001 and section 69 of the Local Government Act 2002.

## **Independence**

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

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



Ian Lothian  
Audit New Zealand  
On behalf of the Auditor-General  
Dunedin, New Zealand