ANNUAL REPORT 2022

City Forests

QUICK FACTS

Community owned, city asset

City Forests is owned by the City of Dunedin, Ōtepoti and includes more than 19,900ha of productive forests, with around 8 million trees.

City Forests include over 57km of community access, walking and mountain bike tracks, as well as several significant heritage and archaeological sites. City Forests contributes to the economy of the city through the Dunedin City Council holding company, Dunedin City Holdings Ltd.

Profitable, long-term business

Established in 1906, City Forests has contributed to the Dunedin economy for over 110 years and has returned $86.1M to the city in dividends since 1990.

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

Sustainable forests, supporting the environment

Forestry and the production of wood helps mitigate global climate change. There is approximately 1.75M tonnes of carbon stored in City Forests.

City Forests has designated over 2,435 ha of land as permanent reserve sites, these sites include native forest plantations, wetlands and significant water catchments for rare native fish species. City Forests are home to a wide range of native bird life and support research projects on the New Zealand Falcon (Kārearea) and Bush Robin (Kakaruai).

$6.8M in **Dividends** for the year ended 30 June 2022

76 STAFF & CONTRACTORS EMPLOYED

21,205 m3 OF BIOENERGY SUPPLIED

57km of community access **WALKING & MOUNTAIN BIKE** tracks

1.75m TONNES of carbon stored in City Forests

$45K WILDLING PINE CONTROL

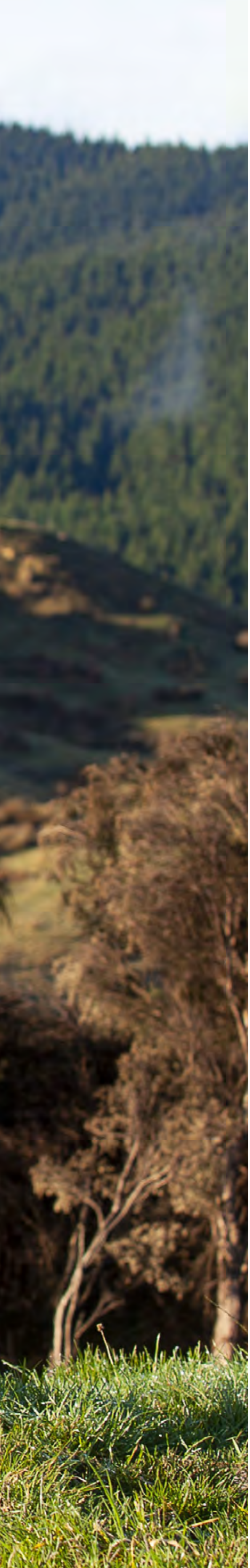
24,914ha of LAND UNDER MANAGEMENT

$117K SPONSORSHIPS

including:

- Yellow Eyed Penguin Trust
- Predator Free Dunedin
- Tokomairiro High School

948,500 NEW TREES PLANTED 2021-2022



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www.cityforests.co.nz

COMPANY PARTICULARS

AS AT 30 JUNE 2022

DIRECTORS

J F Gallaher – A.F.A., F.C.A., B Com., CF.Inst.D., A.N.Z.I.M. (Appointed 01.11.12)
(Appointed Chairman 1.10.13)

T J Mepham – B.Com., C.A.,C.F.Inst.D.
(Appointed 01.12.13)

S A Mason – F.C.A., CM.Inst.D, B Com., B.A., cBA., DipGradBus., (Disp Res), A.A.M.I.N.Z.,
(Appointed 1.10.19)

K A Posa – BMS(Hons), C.A., G.A.I.C.D., CM.Inst.D.
(Appointed 1.10.19)

P R Melhopt – M.Inst.D., B.Com. (Forestry)
(Appointed 1.2.22)

CHIEF EXECUTIVE OFFICER

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

REGISTERED OFFICE

123 Crawford Street
Dunedin 9016, New Zealand

BANKERS

Westpac Banking Corporation

SOLICITORS

Gallaway Cook Allan

ACCOUNTANTS

Deloitte Limited

AUDITOR

Audit New Zealand on behalf of the Controller and Auditor General

SHAREHOLDER

Dunedin City Holdings Limited

The future of forestry

The role of forestry in New Zealand is now more diverse than ever. As climate change initiatives drive industry change and the need for innovation becomes urgent, the forestry industry is stepping up to accept the challenge. City Forests is involved in multiple initiatives to support this change.

The climate change clock is ticking

As governments around the world grapple with the impacts of climate change and emissions targets, the New Zealand Climate Change Commission is supporting an increase in forestry plantation as a way to buy some much needed time. New Zealand is now at very real risk of failing to meet legally mandated climate change targets, but the Forestry industry believe they can provide solutions while the practicalities around meeting our emission targets are established.

The Climate Change Response (Zero Carbon) Amendment Act 2019 provides a framework by which New Zealand can develop and implement climate change policies that contribute to the global effort under the Paris Agreement to limit the global average temperature increase to 1.5° Celsius above pre-industrial levels, and that allow New Zealand to prepare for, and adapt to, the effects of climate change.

The Climate Change Commission has stated forests are now part of the solution for removing carbon dioxide from the atmosphere at the scale and pace that's required to meet our goals. The commission recommended that an additional 380,000ha needs to go into exotics by 2035 to hit New Zealand's emission targets.

City Forests planting expansion plan is to enable approximately 500ha per year to add to the forest estate. These expansions provide more resources under management, increased opportunities for recreation, more stored carbon and jobs.

Balancing farming and forestry

Using forestry to offset carbon is a balancing act. While some sectors are concerned about the impact of plantations on productive land, forestry industry experts believe that with the right policies and encouragement, farmers can integrate farming and forestry on their property and increase income while contributing to our carbon targets.

New Zealand is internationally regarded a top producer of high-value food, we are also efficient producers of high-value wood products. The forestry industry see the two as complementary, not incompatible.

While forestry leaders acknowledge that land use is changing a recent survey from NZ Beef and Lamb and Federated Farmers shows that the change is widely dispersed across the motu. The total of whole farms sold to forestry interests last year was less than 0.5% of the area currently in pastoral farming.

Adding value

The value of New Zealand's forestry industry sits at 6.5 billion in exports per year. The ability of plantation forests to sequester carbon is well established, as is the export value. The value-add role of forestry when it comes to building materials and biofuels is less appreciated.

Earlier this year Forestry Minister Stuart Nash launched the Forestry and Wood Processing Industry Transformation Plan with the goal of increasing domestic value-add forestry products. The plan sets out ambitious targets for exporting more finished wooden products, increased wood construction in New Zealand and a huge transformation from oil and coal fuels, and materials, to instead using renewable wood-based sources.

While the forestry industry supports the plan they acknowledge that significant investment is required to make the plan an economic and environmental reality.

Forestry fuelling industry

Forestry has many strings to its bow and one of the most important may well be the growing role of biomass in powering New Zealand's biggest industry players.

The introduction of the $650m Government Investment in Decarbonising Industry Fund (GIDI) has seen many companies making a swift conversion to renewable energy. GIDI funds up to 50% of capital costs for companies wanting to convert away from coal to renewable energy sources. The conversions are driven by overseas market demand, with customers making it very clear that they will look elsewhere if New Zealand continues to use carbon emitting coal as part of its production process.

City Forests was an earlier proponent of the move to biomass and as a result their partnerships with energy providers and industry are well established.

City Forest is proud of the role they play in assisting New Zealand to adapt to the challenges of climate change, for creating opportunities for innovation and as guardians of our local forests.

Directors' Report


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Directors Report

For the Year Ended 30 June 2022

The Directors of City Forests Limited are pleased to present their report on the activities of the Company for the year ended 30 June 2022.

PRINCIPAL ACTIVITIES OF THE COMPANY

This report covers the financial year 1 July 2021 to 30 June 2022.

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

RESULTS FOR THE YEAR ENDED 30 JUNE 2022

	$'000
Operating Surplus before Income Tax	8,392
Less Income Tax	2,232
Net Surplus for the Year	6,160

STATE OF AFFAIRS

The Directors are satisfied with the results achieved by the Company during the year having regard to the operational and market risk experienced during the year from Covid 19, the Ukraine War and international shipping disruption and believe that the state of affairs of the Company is strong.

DIVIDENDS

The Directors declared and paid a total of $6,800,000 in Dividends during the year made up of;

- an interim un-imputed dividend of $3,800,000 in December 2021
- a final un-imputed dividend of $3,000,000 in June 2022

DONATIONS

There have been donations made of $15,620 during the year.

RESERVES

THE FOLLOWING NET TRANSFERS HAVE BEEN MADE TO OR FROM RESERVES:

	$'000
To Forestry Reserve	(1,401)
To Retained Earnings	8,776
From Hedging Reserve	(3,144)
To Land Revaluation Reserve	10,156
To Carbon Credit Reserve	20,918

REVIEW OF OPERATIONS

This review of operations and the accompanying financial reports cover the 1 July 2021 to 30 June 2022 financial year.

Directors report a modest financial performance for City Forests Limited during the year recording a profit after tax of $6.2m and dividends paid of $6.8m. A summary of markets and operational factors contributing to the result is detailed below.

The Board and Management of the Company are committed to achieving best practice Health and Safety performance. Resources allocated to governance and oversight of this key operational area have been significant during the year. The Company recorded a Lost Time Injury Frequency (LTIF) of 12.2 lost time injuries per 1 million hours worked (LTIF 11.5 previous year). The Company continued to improve its health and safety systems in accordance with its annual plan. The areas of critical risk assessment, performance measurement and internal safety audit systems were a focus for the year. The Company continues to develop a strong safety culture demonstrated by external certification of contract operations, internal and external audit compliance, driver training programs and a commitment to a drug and alcohol impairment free workplace.

The operational impact of Covid-19 has been significant with a period of lockdown restricting all operations. Covid-19 work protocols have been adopted by the Company enabling it to manage the operational risk of disease transmission. Despite this the majority of staff and contract operational employees have been impacted by the disease either through infection or by being a close contact during the year.

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

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

City Forests remains committed to climate change initiatives and Company forests store 1.75m tonnes of CO2-e. As new land is acquired and established in forest by the Company the carbon storage increases. The Company is a long-term participant in the New Zealand Emissions Trading Scheme which enables the Company to be financially rewarded for carbon sequestration. The Company has been a leader in establishing bioenergy supply in Otago and has established further bioenergy supply contracts during the year to enable customers to convert from coal to renewable wood fuel for energy generation.

The measurement of operational carbon emissions has been undertaken for the second year. Targets for reductions in emissions have been established as the Company works towards the DCC group net zero by 2030 initiative.

LOG EXPORT MARKETS

The Company continues to supply both the South Korean and Chinese log markets with regular shipments. Prices were volatile and generally decreased throughout the year in the “price setting” China market initially when a series of high profile Chinese building companies faced financial difficulty and later by the uncertainty created by the Ukraine War and a series of Covid-19 lockdowns across China’s main cities. Changes in the China market were mirrored in South Korea.

The cost per cubic metre of international shipping to Asian markets was highly volatile and increased to a new record level through the year. This significantly impacted NZD returns.

The value of the New Zealand Dollar compared to the United States Dollar was likewise volatile during the year across the 0.61c – 0.72c range.

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

Chart: New Zealand Industry Average Log Prices

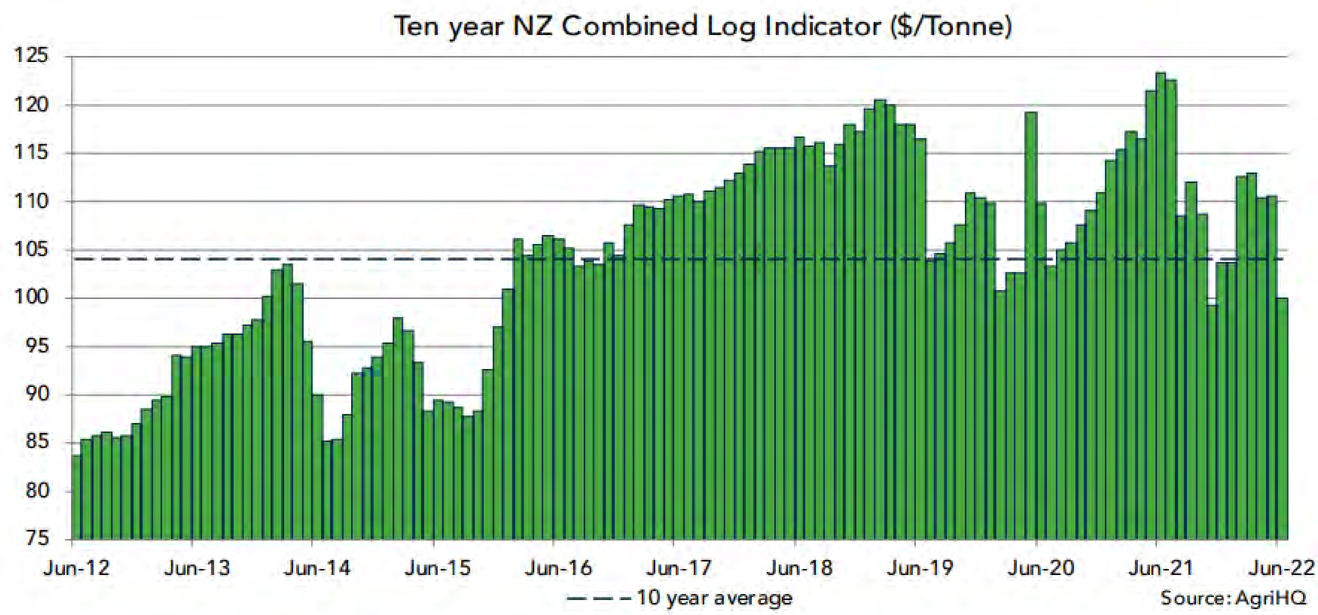


Chart: In Market Export Log Prices

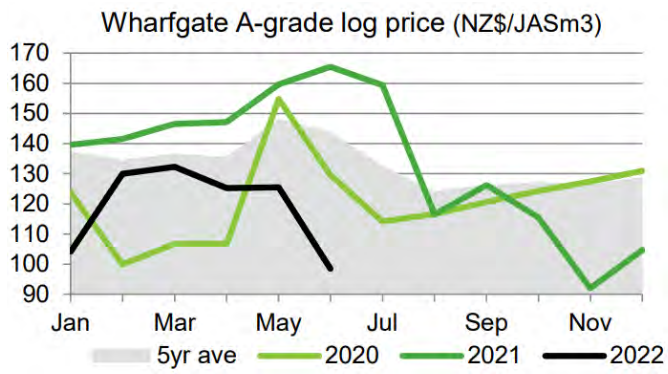


Chart: Shipping Costs

FOREIGN EXCHANGING HEDGING

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

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

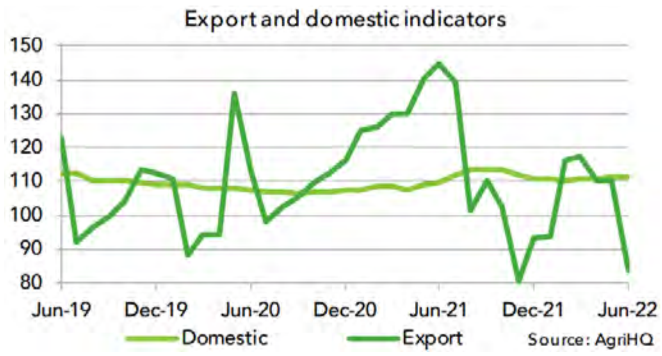
As described above, the year has again seen significant variation in the value of the New Zealand Dollar.

DOMESTIC LOG MARKET

The Company continues to supply domestic mills in Otago and Southland. Overall, 28.5% (30.7% previous year) of log production from the Company's forests was supplied to domestic customers. Domestic supply is constrained by domestic log processing production capacity. During the year the Company entered into a contract to supply additional bio-energy material to Pioneer energy who will supply the Fonterra Stirling cheese factory offsetting coal use in its boilers.

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

Chart: New Zealand Industry Average Export and Domestic Prices



FOREST PRODUCTION

The Company had a modest production year intentionally harvesting below sustainable cut levels. The decision to reduce production was taken in response to the market factors and was also impacted by Covid-19. The overall harvest production from the forest estate was 343,326m3 compared to 360,351m3 planned. (388,664m3 previous year)

The Company handled a total volume of 369,684m3 for the year. 26,358m3 of outside wood was traded during the year principally to supplement log export operations.

ROADING AND INFRASTRUCTURE

A roading network of approximately 446 km is established in the Company's estate including 76 km of major roads providing arterial access throughout the estate. Secondary roads, minor roads or tracks are upgraded prior to harvest and are generally kept operational for harvesting the next crop rotation. Regular maintenance is carried out principally by Delta, a sister company.

During the period the Company carried out road development work on newly acquired properties as well as upgrading access roads to existing forest areas prior to harvest.

FOREST ASSET OPERATIONS

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

New generation tree genetics offer significant gains in tree growth and wood properties compared to the tree stocks currently being harvested. During the year independent advice on tree genetic selection has been sought to assist the Company to maximise future productivity.

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

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

NEW LAND ACQUISITION

During the year the Company purchased 1072.2 ha of new land (563 ha previous year). The land is situated adjacent to the Company's existing forests and will be progressively planted during the 2023 and 2024 planting season providing an increase in the Company's sustainable harvest level and carbon sequestration. The Company continues with its strategy of estate expansion where quality forest and or land can be acquired economically in proximity to the existing estate.

CARBON

The Company continues to be a participant in the Emissions Trading Scheme and the Company's forests store a significant volume of carbon expressed as New Zealand Units (NZU's) each representing one tonne of carbon dioxide (CO_2).

The Company has filed its emissions return for the 2021 emissions year. As at 30 June 2022 the Company has not received the NZU's as a result of filing that return.

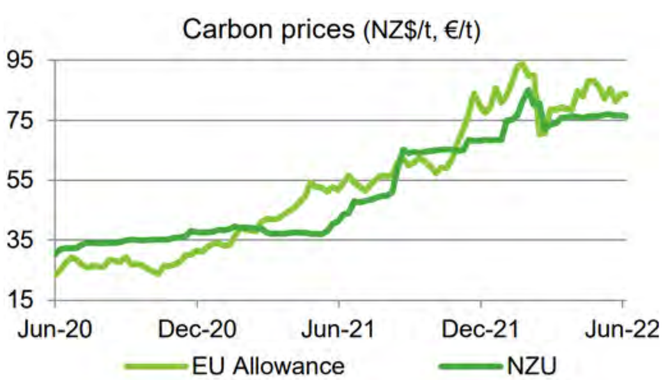
The Company sold 150,000 NZU's during the period. The market price of an NZU increased during the year from $43.47 per NZU up to approximately $86 per NZU then settling into the $76 per NZU range following Government announcements regarding future Emission Trading Scheme settings and the introduction of NZU auctioning.

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

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

The recognition of NZU's held in the Company's registry account is defined by accounting policy. Units are held at fair value. The fair value of a NZU available for sale is the

Chart: NZU Price. Source NZ AgriHQ



market price. Carbon units that are held to be surrendered to meet future harvest liabilities are initially recognised and subsequently measured at nil.

GREENHOUSE GAS EMISSIONS REPORTING

The Company has established Draft Carbon Emissions and Waste Reduction plans during the Period. This is in line with the Net Zero 2030 target established for the Dunedin City Council group.

Progress against the Draft Carbon Emissions Reduction plan is measured by estimating Company Greenhouse Gas (GHG) emissions.

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

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

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

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

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

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

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

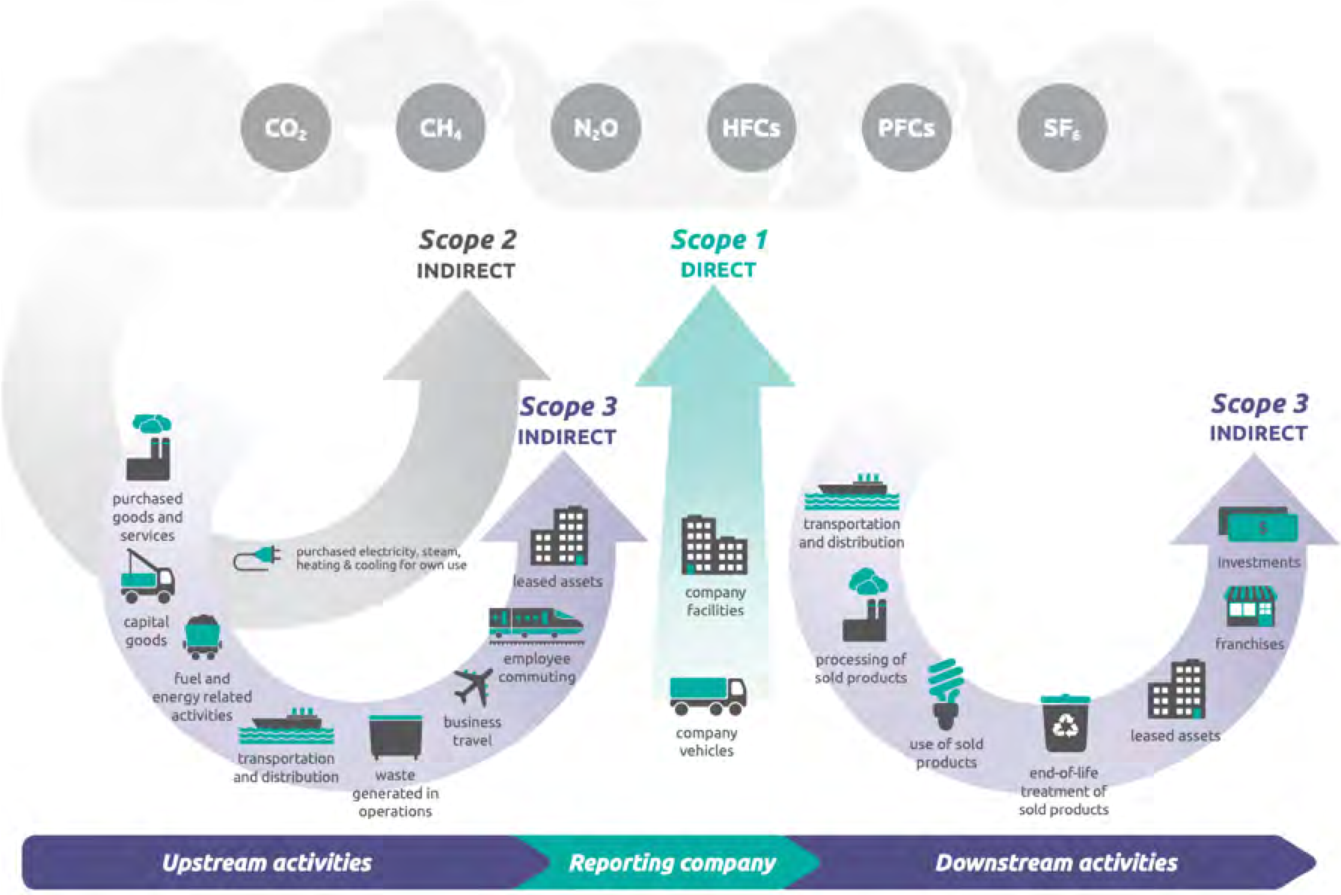
- Purchased electricity that is consumed at operational sites.

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

Our Scope 3 emissions include the following:

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

Figure 1 Source: GHG Protocol - Figure 1.1 of Scope 3 Standard



Results

Emissions are reported as tonnes (t) of Carbon Dioxide (CO2) equivalent (e); or tCO2-e. "Carbon dioxide equivalent" is a standard unit for counting greenhouse gas emissions regardless of whether they are from carbon dioxide or another greenhouse gas.

EMISSIONS BY SCOPE

City Forests estimated GHG emissions for the year end 30 June 2022 are 24,237 tCO2-e, with sequestration from native reserve areas of 5,535 tCO2-e, resulting in net emissions of 18,702 tCO2-e. As described above commercial forest carbon sequestration / emissions are excluded and the Company's primary source of emissions is Scope 3 emissions relating to contract supply chain operations.

We utilised the standard emissions model provided by Lumen and Opportune Consulting to estimate our emissions for the financial year. The model uses standardised emission factors by activity and fossil fuel energy source and as such provides an estimate of Company emissions. It should not be read as a precise calculation of Company emissions.

Table 1 Emissions by Scope

Emissions	tCO2-e	% of Total
Scope 1	105	0.43%
Scope 2	3	0.01%
Scope 3	24,129	99.56%
Sub Total	**24,237**	**100%**
Native forest	**(5,535)**	**-23%**
Net Total	**18,702**	**77%**

EMISSIONS BY ACTIVITY

Our top emissions sources are summarised below.

Table 2 Emissions by activity

Category emission source	tCO2-e
Freight	20,022
Contractor Fuels	4,105
Fuels	104
Fertiliser	1
Flights (Domestic)	1
Purchased Electricity	3
Waste to landfill	1
T&D losses	0.3
Taxis	0.1
Accommodation	0.0
Forestry (owned)	(5,535)

EMISSION REPORTING NEXT STEPS

This is City Forests' second year estimating its emissions footprint. A number of assumptions, estimates and standard factors of emissions by activity have been utilised when calculating emissions. It is City Forests' intention to manage and report its emissions footprint annually.

As noted in our Statement of Intent, an emissions and waste reduction strategy and associated targets have been developed to work towards the Net Zero carbon 2030 goal. This will see the Company adopt business strategies, purchasing decisions and technology where economic to do so in order to reduce its emissions footprint. It must be noted that the emissions and waste reduction strategy is a separate system to the New Zealand Emissions Trading Scheme and the Company's carbon sequestration recorded under the Emissions Trading Scheme does not count towards its emissions and waste reduction strategy targets.

Figure 1 Emissions by Scope

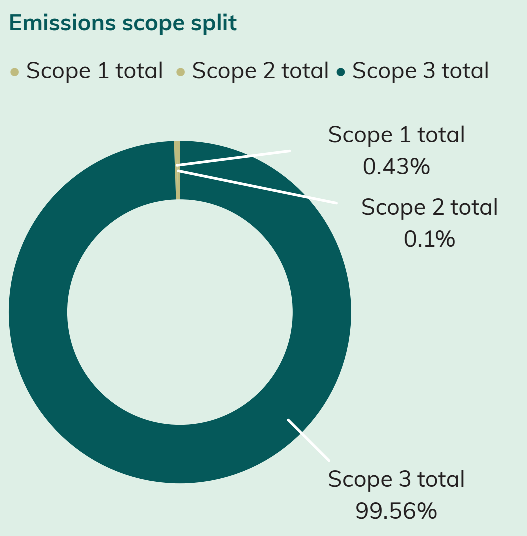
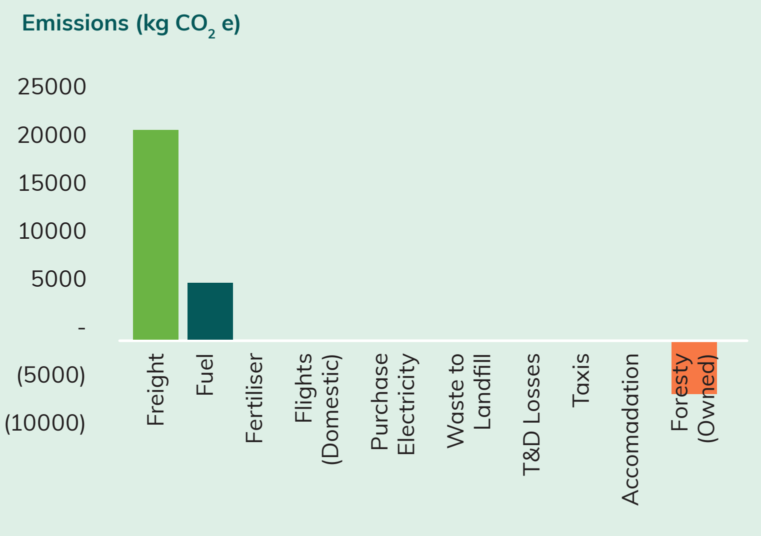


Figure 2 Emissions by activity



FOREST VALUATION

Company forest crops are valued annually on 30 June and the fair value increased by $1.116 million from the previous year. The primary drivers of the valuation change were changes in 5-year average log prices and inflation related land rental and production cost impacts. The discount rate applied to the valuation is unchanged at 5.5%.

The Company maintains a policy of a conservative but fair valuation of its forest crop assets. This year's valuation change is modest and reflects the outcome of a standard New Zealand Institute of Forestry forest valuation approach that has been independently audited by a third-party, Woodlands Pacific.

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

DIVIDENDS

The Company has paid a dividend to the shareholder of $6.8 million during the year. The dividend was increased from the budgeted dividend of $5 million as a result of strong trading conditions and above plan cashflows experienced in the latter quarter of the previous year.

FUTURE STRATEGY

The Company continues to operate in a challenging forest products market although market conditions and subsequent returns are typically variable within the financial year and between years. In addition, the environmental benefits provided by forests such as carbon sequestration are becoming increasingly valuable.

The Covid 19 pandemic, Ukraine War and higher inflation are notable risk factors currently increasing market volatility, operating costs and impacting returns.

Operationally, the Company plans to harvest its forests at the long-term sustainable cut level with some annual variations typically about +/- 10% to adjust for market conditions. Logs will continue to be supplied to a range of domestic and international markets.

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

The strategy of forest estate expansion continues, and the Company plans to continue investment in economically viable new land and forest assets that are selectively targeted within its operational area.

The Board's focus is to ensure the Company is run on a long-term sustainable basis financially, environmentally and socially and that operational performance improvement and business growth occurs so long-term wealth and environmental prosperity continues to accumulate for the shareholder.

OUTLOOK

The outlook for the 2023 financial year is predicted to deliver a modest result with profitability being impacted by Covid-19, inflation and geopolitical tensions. The underlying operational performance is predicted to be similar to previous years, however profitability will be variable and dependent on how log markets and the wider international economy are impacted by the Covid 19 pandemic, inflation, particularly fuel costs and other related geopolitical factors such as the Ukraine War throughout the coming year.

The Company's financial performance is driven by export and domestic log sales and strong customer relationships. A dividend of $13.6 million is forecast for the 2023 year. This includes a component of capital restructuring as planned through the Statement of Intent process.

Looking to the medium-term future the Company is optimistic that the New Zealand Forest Industry will continue to generate favourable returns in international and domestic log markets. This is driven by strong demand for renewable wood products domestically and from China and other Asian economies experiencing economic growth. As experienced in the past it is expected that economic volatility will cause these returns to remain cyclical in nature throughout each financial year.

Recent forest acquisitions have increased the Company's annual sustainable cut level to approximately 360,000m3 per annum. The Company is well placed with a mature, harvest ready forest and proven export capability to make the most of market opportunities.

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

CHANGE OF DIRECTORS

Ms Suzanne Watt attended board meetings during the year as a non-voting Intern Director as part of the Dunedin City Holdings Limited, Graham Crombie Director Internship Program. Mr Phil Melhopt was appointed Non-Executive Director, 1st February 2022.

FINANCIAL STATEMENTS

The audited financial statements for the year ended 30 June 2022 are attached to this report.

DIRECTORS' INTERESTS IN CONTRACTS

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

AUDITORS

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

EMPLOYEE REMUNERATION

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

Table 1:

Employee Remuneration and Other Benefits, $000	No of Employees
$100,000-$110,000	3
$110,000-$120,000	1
$120,000-$130,000	1
$170,000-$180,000	1
$210,000-$220,000	1
$220,000-$230,000	1
$360,000-$370,000	1

DISCLOSURE OF CHIEF EXECUTIVE OFFICE REMUNERATION

The base salary of the CEO is in the range of $280,000 - $290,000. Additionally short-term incentives of between $40,000 and $50,000 and long-term incentives of nil are paid if performance criteria is met. The performance criteria used to determine the performance-based payments are based on Company financial performance, health and safely performance, delivery of strategy including performance improvement and managing risk.

GENDER DIVERSITY

There are four men and one woman at board level, and 4 men at senior management level across the organisation.

INFORMATION ON THE DIRECTORS OF CITY FORESTS LIMITED

Director	Remuneration $000's	
	2022	2021
John F Gallaher Non-Executive Director (Appointed 1st November 2012) Chairman Remunerations Sub Committee (Appointed 1st October 2013)	**74**	**69**
Tim J Mepham Non-Executive Director (Appointed 1st December 2013)	**37**	**36**
Phil Melhopt Non-Executive Director (Appointed 1st February 2022)	**15**	**0**
Scott A Mason Non-Executive Director (Appointed 1st October 2019)	**37**	**36**
K Alison Posa Non-Executive Director (Appointed 1st October 2019)	**37**	**36**

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 what has been a more challenging year. The Company is very fortunate to have a small but highly skilled and dedicated team ably led by Grant Dodson, the Company's Chief Executive Officer supported by an experienced Board of Directors.

On behalf of the Board of Directors:

S A Mason
Chairman

Date 28 Nov 2022

K A Posa
Director

Date 28 Nov 2022

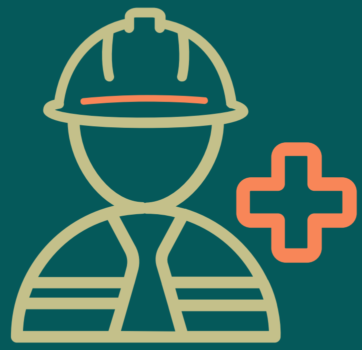

SUMITOMO

CITY FORESTS

ENVIRONMENTAL SOCIAL & GOVERNANCE

“FORESTS FOR OUR FUTURE”

HEALTH & SAFETY



- Commitment & improvement culture
- Lost Time Injury Frequency 12.2 (11.5 previous year)
- Contractor Certification
- Risk assessment
- Drug and alcohol testing
- Internal safety audit systems
- Audit and compliance

ENVIRONMENT AND SUSTAINABILITY

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

CLIMATE CHANGE

- Greenhouse Gas Emissions reporting undertaken
- Plan to reduce greenhouse gas emissions in place
- Participant in Emissions Trading Scheme
- Carbon Storage 1.75m ton
- New plantings increasing carbon storage

RESPONSIBLE BUSINESS

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

SOCIETY AND COMMUNITY

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

OUR PEOPLE

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

COMPANY HIGHLIGHTS *$,000

NET PROFIT AFTER TAX

$6,160*

SHAREHOLDERS FUNDS

$282,203*

DIVIDENDS PAID

$6,800*

INFORMATION ON THE DIRECTORS OF CITY FORESTS LIMITED

DIRECTOR, QUALIFICATIONS AND DECLARATIONS OF INTEREST

John Gallaher
• A.F.A., F.C.A., B Com., C.F.Inst.D., A.N.Z.I.M.
Chairman

Chairman appointed October 2013
Date appointed 1st November 2012

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

Mr Tim J Mepham
• C.A., B Com., C.F.Inst.D.
Non-Executive Director

Date appointed 9 December 2013

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

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

Dated appointed 1 October 2019

Director, Asurequality Limited
Member Audit Advisory Board, PricewaterhouseCoopers

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

Date appointed 1 October 2019

Senior Partner, Findex Otago
Director, Innovative Learning Holdings Limited
Director, Bison Group Limited
Director, Severely Limited
Director, Financially Limited
Director, Smith Brothers Holdings Limited (and ancillary entities)
Chairman, NomosOne (and subsidiaries)
Director, Get Home Safe Limited
Director, Banqer Limited
Trustee, StartUp Dunedin Trust
Chairman, CAANZ Tax Advisory Group
Director, Amelda Holdings Limited
Director, Andy Bay Investments Limited
Director, Blue Chip Nominees Limited
Director, Blenheim Road Properties Limited
Director, Invercargill Property Investments Limited
Director, Southern Motor Group Limited (and associated entities)
Director, Samian Notas Limited
Member, Otago Branch Committee, Institute of Directors

Mr Philip R Melhopt
• M.Inst.D., B Com., (Forestry)
Non-Executive Director

Date appointed 1 February 2022

Chief Executive Officer, Primeport Timaru Limited

TREND STATEMENT

FOR THE YEAR ENDING 30 JUNE 2022

(All $,000 unless stated otherwise)

FINANCIAL PERFORMANCE	2022	2021 (Restated)	2020 (Restated)	2019 (Restated)	2018 (Restated)
Domestic Revenue	8,895	12,001	9,553	11,831	13,043
Export Revenue	55,199	51,660	37,085	46,785	39,421
Other Revenue	1,634	1,433	576	432	1,513
Total Operating Revenue	**65,728**	**65,094**	**47,214**	**59,048**	**53,977**
Percentage Increase	.97%	37.8%	(20.0%)	9.4%	34.6%
Inventory Movement	56	(916)	(43)	86	237
Total Expenses	**67,319**	**57,352**	**45,926**	**48,484**	**45,770**
Percentage Increase	17.4%	26.5%	(5.2%)	5.9%	37.5%
Operating Surplus	**(1,535)**	**6,888**	**1,245**	**10,650**	**8,444**
Gain in fair value of forestry asset	9,474	38,164	11,628	20,333	19,672
Write down value of land	453	803	(69)	(462)	(1,528)
Surplus after non-operating items and before taxation	**8,392**	**45,793**	**12,804**	**30,521**	**26,588**
Income tax	**2,232**	**12,572**	**3,626**	**8,349**	**7,338**
TOTAL SURPLUS AFTER TAXATION	**6,160**	**33,221**	**9,178**	**22,172**	**19,250**

SHAREHOLDERS' FUNDS

Shareholders' Funds	282,203	246,898	201,816	184,759	160,343
Operating Cash flow	7,258	16,344	5,659	13,578	15,353
Dividends paid - normal	5,000	4,200	4,500	6,500	5,000
Dividends paid - special	1,800	4,000	-	1,500	3,000
Value of Forest	201,362	200,246	169,150	164,010	150,172
Surplus after tax to shareholders funds	2.18%	13.45%	4.55%	11.99%	12.01%
Proprietorship Ratio	72.56%	73.06%	72.12%	71.60%	70.03%
Net Forest Revaluation	6,822	27,478	8,374	14,640	13,585
Net Land Revaluation	10,156	7,327	2,796	4,735	2,277

FOREST STATISTICS (Whole numbers)

Forest harvested (m^3)	343,326	388,664	310,100	336,374	303,922
Volume traded (m^3)	26,358	13,597	27,093	31,967	44,014
Forest planted (ha)	1,054	1,030	970	765	591
Total forest (ha)	19,919	19,324	19,050	18,143	17,285
Forest purchased (ha)	130	87	0	38	244

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

STATEMENT OF **COMPREHENSIVE INCOME**

FOR THE YEAR ENDED 30 JUNE 2022

	NOTE	2022 $,000	2021 $,000 (Restated)
Revenue	3	65,086	65,531
Financial income		1,095	366
Gain/(loss) in fair value of forestry asset	5	9,475	38,164
TOTAL REVENUE		**75,656**	**104,061**
Inventory Movement		**56**	**(916)**
LESS EXPENSES:			
Contractors		16,864	18,115
Depreciation and amortisation expense		568	571
Directors' fees		200	177
Employee expenses		2,238	2,028
Financial expenses		453	513
Other expenses	4	46,997	35,948
Total expenses		**67,320**	**57,352**
Profit before tax		**8,392**	**45,793**
Income tax expense	13	2,232	12,572
NET PROFIT AFTER TAX		**6,160**	**33,221**
OTHER COMPREHENSIVE INCOME:			
Gains/(loss) on cash flow hedges taken to equity		(4,368)	1,342
Tax effect of cash flow hedges taken to equity		1,223	(376)
Increase in land revaluation		10,156	6,745
Reversal of revaluation gain on disposed land		-	(221)
Tax effect of land revaluation taken to equity		-	78
Carbon credits revaluation above initial recognition taken to equity		40,167	17,348
Tax effect of carbon credits taken to equity		(11,233)	(4,855)
TOTAL OTHER COMPREHENSIVE INCOME FOR THE YEAR		**35,945**	**20,061**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**42,105**	**53,282**

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

STATEMENT OF **CHANGES IN EQUITY**

FOR THE YEAR ENDED 30 JUNE 2022

	2022 $,000	2021 $,000
Equity at beginning of year	**246,898**	**201,816**
Total comprehensive income for the year	42,105	53,282
Distribution to owners		
Dividends	(6,800)	(8,200)
EQUITY AT END OF YEAR	**282,203**	**246,898**

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

STATEMENT OF **FINANCIAL POSITION**

AS AT 30 JUNE 2022

EQUITY	NOTE	2022 $,000	Restated as at 30 June 2021 $,000	Restated as at 1 July 2020 $,000
Share Capital	**8**	25,691	25,691	25,691
Forestry reserve	**9**	102,520	103,921	84,495
Land revaluation reserve	**9**	49,840	39,683	33,081
Hedging reserve	**9**	(2,577)	568	(399)
Carbon credit reserve	**9**	56,034	35,116	22,623
Retained earnings	**10**	50,695	41,919	36,325
TOTAL EQUITY		**282,203**	**246,898**	**201,816**

LIABILITIES

	NOTE	2022 $,000	Restated as at 30 June 2021 $,000	Restated as at 1 July 2020 $,000
CURRENT LIABILITIES				
Trade and other payables		4,391	4,042	3,504
Other current liabilities		295	82	463
Employee provisions		238	286	170
Derivative financial instruments	**11**	1,679	138	399
Provision for taxation	**13**	5,413	4,559	3,670
Lease liabilities	**19**	142	108	110
Total current liabilities		**12,158**	**9,215**	**8,316**
NON-CURRENT LIABILITIES				
Derivative financial instruments	**11**	1,901	285	261
Term borrowings	**12**	20,600	16,000	17,000
Lease liabilities	**19**	330	393	479
Net deferred tax liability	**14**	71,866	65,129	51,962
Total non-current liabilities		**94,697**	**81,807**	**69,704**
TOTAL LIABILITIES		**106,855**	**91,022**	**78,018**
TOTAL EQUITY PLUS LIABILITIES		**389,058**	**337,920**	**279,834**

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

CURRENT ASSETS	NOTE	2022 $,000	Restated as at 30 June 2021 $,000	Restated as at 1 July 2020 $,000
Cash and cash equivalents		1,373	1,477	2,143
Trade and other receivables		3,530	3,927	3,333
Derivative financial instruments	11	-	928	33
Inventories – raw materials		1,144	726	1,642
Prepayments		236	135	137
GST refund		889	423	280
Deposit on land		275	-	105
Assets held for sale		-	-	1,770
TOTAL CURRENT ASSETS		**7,447**	**7,616**	**9,443**

NON-CURRENT ASSETS

Derivative financial instruments	11	-	283	73
Property, plant and equipment	7	101,416	80,309	69,165
Forestry assets	5	201,362	200,246	169,650
Investments		1	1	1
Intangibles – computer software		23	22	32
Intangibles – New Zealand carbon credits	6	78,809	49,443	31,970
Total non-current assets		**381,611**	**330,304**	**270,391**
TOTAL ASSETS		**389,058**	**337,920**	**279,834**

For and on behalf of the Board of Directors:

S A Mason
Chairman

Date 28 Nov 2022

K A Posa
Director

Date 28 Nov 2022

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

STATEMENT OF **CASH FLOWS**

FOR THE YEAR ENDED 30 JUNE 2022

	NOTE	2022 $,000	2021 $,000
CASH FLOWS FROM OPERATING ACTIVITIES			
CASH WAS PROVIDED FROM			
Receipts from customers		64,518	63,869
Effect of exchange rate changes		1,095	342
Interest received		-	2
		65,613	**64,213**
CASH WAS DISBURSED TO			
Payments to suppliers and employees		53,255	43,712
Interest paid		447	489
Income tax/subvention		4,653	3,668
		58,355	**47,869**
NET CASH INFLOWS/(OUTFLOWS) FROM OPERATING ACTIVITIES	**16**	**7,258**	**16,344**
CASH FLOWS FROM INVESTING ACTIVITIES			
CASH WAS PROVIDED FROM			
Carbon credits sold		11,131	-
Sale of property, plant and equipment		10	1,637
		11,141	**1,637**
CASH WAS DISBURSED TO			
Purchase of property, plant and equipment		11,273	4,419
Purchase of forest assets		4,537	4,763
Purchase of carbon credits		329	125
		16,139	**9,307**
NET CASH INFLOWS/(OUTFLOWS) FROM INVESTING ACTIVITIES		**(4,998)**	**(7,670)**

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

CASH FLOWS FROM FINANCING ACTIVITIES

	2022 $,000	2021 $,000
CASH WAS PROVIDED FROM		
Proceeds from borrowings	18,300	4,000
	18,300	**4,000**
CASH WAS DISBURSED TO		
Repayment of borrowings	13,700	5,000
Lease repayments	164	140
Dividends paid	6,800	8,200
	20,664	**13,340**
NET CASH INFLOWS/(OUTFLOWS) FROM FINANCING ACTIVITIES	**(2,364)**	**(9,340)**
Net (Decrease)/Increase in Cash Held	**(104)**	**(666)**
Cash and short-term deposits at the beginning of the year	1,477	2,143
CASH AND SHORT-TERM DEPOSITS AT THE END OF THE YEAR	**1,373**	**1,477**

COMPOSITION OF CASH

Cash and short-term deposits	1,373	1,477

ACCOUNTING POLICY

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

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

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

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

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

Financial Statements

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDING 30 JUNE 2022

1. REPORTING ENTITY

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

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

City Forests Limited is a profit orientated entity.

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

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

The financial statements were authorised for issue by the Directors on 28th November 2022.

Basis of Accounting

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

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

Changes in Accounting Policies

Except for the change stated below, the Company has consistently applied accounting policies to all years in these financial statements.

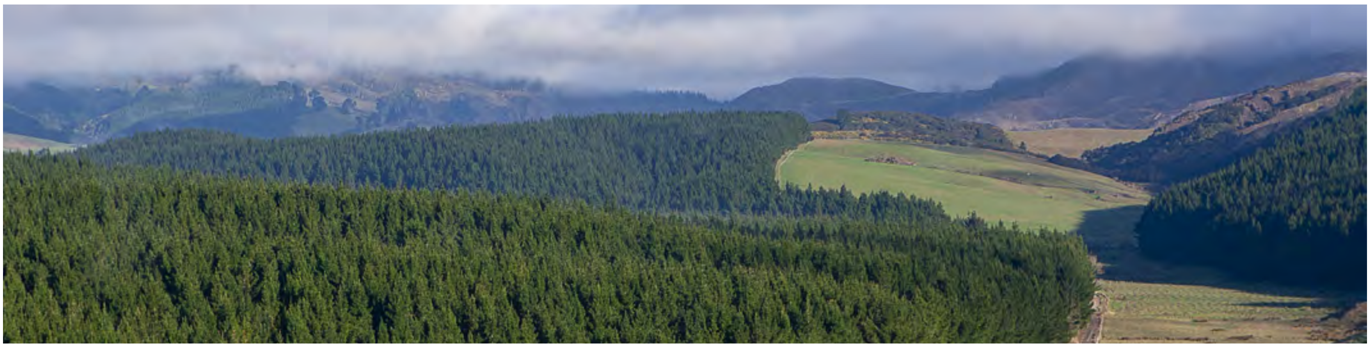
As a result of NZ IAS 20 and NZ IAS 38 the company has voluntarily changed its accounting policy for carbon credit accounting. This change in policy will result in a consistent recognition method for the class of asset that the NZUs awarded under the NZ ETS are included in.

The NZUs awarded are acquired by way of a government grant, so in accordance with NZ IAS 20 will be valued at the nominal value of nil for all units that are allocated. Subsequently the class of NZUs that are distinguished as liability free NZUs are revalued at fair value.

This increase/decrease in value from the initial recognition amount is recognised as a revaluation gain/loss in other comprehensive income. The change in policy therefore results in these revaluation gains and losses only being disclosed in other comprehensive income rather than being split between other revenue in the statement of comprehensive income and revaluation gains for the same class of intangible asset.

The Company considers this change supports providing reliable and more relevant information to the readers of the financial statements. The Company has reported the adjustment to all periods prior to presented as an adjustment to the opening balance of each affected component of equity. (NZ IAS 8.5).

The amount of the adjustment to the financial statements is summarised as follows:



STATEMENT OF COMPREHENSIVE INCOME

	As previoulsy Reported 2021 $,000	As Restated 2021 $,000
Revenue	70,600	65,531
Total Revenue	109,130	104,061
Profit before tax	50,862	45,793
Income tax expense	13,991	12,572
Net profit after tax	36,871	33,221
OTHER COMPREHENSIVE INCOME		
Carbon credits revaluation taken to equity	12,279	17,348
Tax effect of carbon credits taken to equity	(3,436)	(4,855)
Total other comprehensive income	16,411	20,061
Total comprehensive income	53,282	53,282
STATEMENT OF FINANCIAL POSITION		
Equiety		
Carbon credit reserve	16,862	35,116
Retained earnings	60,173	41,919
Total Equity	246,898	246,898

The amount of the adjustment relating to the period before those presented is decrease in Retained earnings of $14,604,054.98; an increase in Carbon Revaluation Reserve of $14,604,054.98.

Amendments to NZ IAS 1

The International Accounting Standards Board (ASB) has issued amendments to IAS 1 Presentation of Financial Statements that are intended to help preparers in deciding which accounting policies to disclose in their financial statements. The amendments are effective for periods beginning on or after 1 January 2023 (earlier application is permitted) and require entities to disclose material accounting policies rather than significant accounting policies based on a four-step materiality process. The Company did not early apply these amendments.

Comparatives

Certain prior period revenue and expenditure has been reclassified between functional categories for consistency with the current period.

Critical Accounting Estimates and Assumptions

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

Note 5 – Forestry asset valuations
Note 6 – New Zealand carbon credits valuation
Note 7 – Property, Plant and equipment valuation

Currencies

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

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

In order to hedge its exposure to certain foreign exchange risks, the Company may enter into forward contracts and options (see note 11 for details of the Company's accounting policies in respect of such derivative financial instruments).

Good and Service Tax (GST)

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

Impairment of assets excluding goodwill

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

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific

to the asset for which the estimates of future cash flows have not been adjusted.

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

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

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

Inventories

Inventories reported in the balance sheet include:

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

Cash and Cash Equivalents

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

Classification as Trade Receivables

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

Financial Instruments

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

Financial Liability and Equity

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

Interest Income

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

Government Grants

Government grants are recognised when there is a reasonable assurance that the Company has complied with the conditions attached to them and that the grants have been received. All conditions of the grants have been met.

3. REVENUE

	As at 30 June 2022 $,000	Restated as at 30 June 2021 $,000
Sales revenue	64,095	63,662
Gain on sale of property, plant and equipment	3	404
Net reversal of land value impairments	453	803
Other revenue	535	662
	65,086	**65,531**

Net reversal of land value impairments:

Impairment reversal	503	1,155
Write down of land value	(50)	(352)
Net write up	**453**	**803**

ACCOUNTING POLICY

Revenue Recognition

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

In respect of export sales, the largest category of sales, the Company has determined that there are two performance obligations.

The Company is obligated under the contract to supply the specified goods and also to arrange and pay for shipping and insurance on behalf of the customer. Control of the goods passes, and the service of arranging shipping and insurance is complete, at the point when the goods have been loaded onto a ship at the port of departure, to be delivered to the customer's chosen destination. Revenue is recognised at this point in time.

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

4. OTHER EXPENSES

	As at 30 June 2022 $,000	As at 30 June 2021 $,000
Accounting services	-	20
Audit fees - for audit of financial statements	51	49
Donations	16	19
Impairment loss on disposal of land	-	62
Loss on sale of property, plant and equipment	28	298
Research expenditure	4	-
Cost of bush applied	13,408	12,375
Shipping costs	28,138	18,813
Other operating expenses	5,352	4,312
	46,997	**35,948**

5. FORESTRY ASSETS

	As at 30 June 2022 $,000	As at 30 June 2021 $,000
Balance at the beginning of the year	200,246	169,150
ADD		
Costs capitalised in establishing forests during the year	3,649	3,392
Increase in forest from acquisition	1,400	1,915
Forest revaluation	9,475	38,164
LESS		
Cost of trees harvested at fair value	(13,408)	(12,375)
	201,362	**200,246**
Gains/(losses) arising from changes in fair value less point of sale costs;		
attributable to physical changes	6,617	7,440
attributable to price changes	2,858	30,724
	9,475	**38,164**

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

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

Fair value requires calculating the present value of expected net cash flows using a post-tax discount rate. This discount rate used by the Company is 5.5% (2021 5.5%).

The forestry valuation is subject to a number of assumptions. The ones with the most significant volatility or impact on the valuation are the discount rate applied and log prices adopted. The discount rate adopted was 5.5%; a +/- 50 basis point movement in the discount rate would change the valuation by +$12.8 mil / -$11.7 mil. A 10% increase or decrease in assumed log prices would change the valuation by +$16.8 mil / -$16.8 mil (note that these sensitivities are shown are independent and different outcome would result from combined changes in discount and log prices).

At 30 June 2022 the Company owned stands of trees on 19,919 hectares of a total productive land holding (including lease, Joint Venture & Forestry Right) of 24,914 hectares. During the year the Company harvested approx. 343,326 m3 of logs from its forests.

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

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

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

ACCOUNTING POLICY

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

The fair value of the forest, exclusive of the forest land, is determined at each reporting date. Fair value is equivalent to the NZIF Forest Valuation Standards definition of market value. Fair value is determined using the discounted cash flow methodology and in using this method, financing costs and replanting costs are excluded.

The method first determines the current market value of the collective forest and land resource, with land then subtracted at its current market value to provide the value of the forest asset.

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

6. NEW ZEALAND CARBON CREDITS

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

A forest owner with forests established after 31st December 1989, under the Act, may opt to join the Emissions Trading Scheme. Post-89 forests will earn carbon credits (NZU's) from 1st January 2008 and these may be traded within New Zealand. City Forests Limited completed registration of the post-89 forests under the Emissions Trading Scheme in January 2010. These forests have been sequestering carbon under the scheme since 1st January 2008. Subsequent to our Post-89 registration, the New Zealand Government has allocated City Forests 2,865,718 Post-89 derived NZU's, being the carbon sequestered by these forests during the 2008 to 2020 calendar years. There were carbon credit sales for the financial year of 150,000 units. (2021 nil).

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

As at 30th June 2022, 1,045,944 units were unsold (2021 1,187,042 units). Under the accrual principle, the safe carbon level credits have been valued based on the current market prices and recognised in the financial statements. The value has been carried in the financial statements as follows:

	As at 30 June 2022 $,000	As at 30 June 2021 $,000
New Zealand carbon credits	78,809	49,443

In future years there will be a carbon credit liability against a proportion of the carbon credits sequestered from post-1989 forest areas in accordance with New Zealand Emission Trading Scheme Regulations. A proportion of Carbon sequestered from Post-1989 areas will have to be surrendered to compensate for the carbon liability generated from harvesting those forest areas.

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

The safe carbon is a management estimate based on the company's current official FMA (Forestry Management Approach) yield tables, and a City Forests' specific harvest schedule of Carbon Accounting Areas (CAAs) when managed in perpetuity. The estimate assumes ETS land eligibility for areas not yet registered. The modelling is independently reviewed by Woodlands Pacific Consulting Ltd.

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

ACCOUNTING POLICY

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

- **Purchased carbon units are initially measured at cost.**
- **Carbon units are granted by the Government under the emissions trading scheme for carbon sequestration by post-1989 forests. Although some carbon units earned for forest growth will subsequently be returned to the government when the forest is harvested, a proportion of units will never be returned under expected forest crop rotations.**
- **All units allocated by government are initially measured at nil. Those units that are not required to be held to be surrendered to meet future harvest liabilities, are subsequently valued at fair value.**
- **Carbon units that are held to be surrendered to meet future harvest liabilities are measured at nil.**
- **Liability free carbon units are marked to market (revalued) annually at 30 June subsequent to initial recognition and biannually thereafter. This fair value is based on current market prices. The difference between initial fair value or previous annual revaluation and revaluation value of the liability free units is recognised in other comprehensive income.**
- **Emissions obligations are recognised for forest harvesting that has occurred up to balance date. Emissions obligations are measured based on the carrying value of carbon units held by the company that will be used to settle the obligation (generally nil value) plus the fair value of any excess carbon units required to be purchased to meet the emissions obligation.**

NZU's # of units at end of year	2022 \#	2021 \#
Held at Fair value	1,037,641	1,137,414
Held at Nil value	8,303	49,628
Total Units at end of year	**1,045,944**	**1,187,042**

Units – Post 1990		
Opening	1,185,662	995,940
Credits Issued	-	(180,602)
Per Emissions Trading Register	1,185,662	1,176,542
Units acquired	8,902	9,120
Units sold	(150,000)	-
Fair Value NZU's	1,044,564	1,185,662

Units - Pre 1990		
Opening balance	1,380	-
Acquired	-	1,380
Closing balance at end of year	1,380	1,380
Closing balance all units at end of year	**1,045,944**	**1,187,042**
Less Units at Nil value	(8,303)	(49,628)
	1,037,641	**1,137,414**

	$ $'000
Value applied to risk free units @ $75.95	78,809

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

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

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

The calculation of Safe carbon is a management estimate based on the best information available at 30 June. The calculation is dependent on assumptions made in;

- the formation of the future harvest plan,
- an assumption of no change to the current FMA carbon yield tables
- and an estimation of carbon to be derived from a proportion of the post-89 forest area currently un-registered. This is new land either in the registration process or pending registration following planting.

All of these variables are expected to change over time. The calculation is most sensitive to the harvest plan assumptions and the harvest plan can be expected to be modified over time as the forest harvest program is managed to meet market and supply chain operational constraints.

7. PROPERTY, PLANT AND EQUIPMENT

2022	LAND OTHER VALUATION	FOREST LAND VALUATION	BUILDING COST	ROADS BRIDGES COST	PLANT EQUIPMENT COST	MOTOR VEHICLES COST	OFFICE EQUIPMENT COST	WORK IN PROGRESS COST	RIGHT OF USE ASSET	TOTAL
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Cost or Valuation										
Balance at beginning of year	-	75,762	660	9,206	1,580	715	195	14	699	88,831
Purchases	-	8,893	1,102	680	113	98	6	152	95	11,139
Revaluation	-	10,156	-	-	-	-	-	-	-	10,156
Disposals	-	-	-	-	(244)	-	-	(14)	-	(258)
Balance at end of year	**-**	**94,811**	**1,762**	**9,886**	**1,449**	**813**	**201**	**152**	**794**	**109,868**
Accumulated depreciation/impairment										
Balance at beginning of year	-	1,575	206	4,865	1,143	378	140	-	214	8,521
Depreciation	-	-	26	236	66	94	21	-	110	553
Net Impairment reversal	-	(453)	-	-	-	-	-	-	-	(453)
Disposals	-	-	-	-	(169)	-	-	-	-	(169)
	-	**1,122**	**232**	**5,101**	**1,040**	**472**	**161**	**-**	**324**	**8,452**
BALANCE AT END OF YEAR	**-**	**93,689**	**1,530**	**4,785**	**409**	**341**	**40**	**152**	**470**	**101,416**
Comprising – Cost	-	-	1,530	4,785	409	341	40	152	470	7,727
– Valuation	-	93,689	-	-	-	-	-	-	-	93,139
Carrying amounts (revalued assets if measured under the cost model)	-	43,286	-	-	-	-	-	-	-	43,286

The company has had its land assets independently valued at 30 June 2022 by Morice Limited using the Fair Value approach. Morice Limited is a valuation company used by various other forestry companies. The revaluation movement in the land for the year ended 30 June 2022 was $10,156k (2021 $6,745k). All other asset classes are shown at cost.

The land valuation is based on market data and falls within Level 1 of the fair value hierarchy. The land is valued at the component level and the valuation methodology takes into account the key factors impacting land value such as location, productivity, size, ETS status, altitude, contour, local authority zoning and development potential relative to market evidence. This method is consistent with the previous period.

The real estate market has been impacted by COVID-19. This has resulted in material market and valuation uncertainty noted by the valuer in his report.

ACCOUNTING POLICY

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

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

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

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

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

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

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

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

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

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

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

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

Derecognition

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

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

2021

Cost or Valuation	LAND OTHER VALUATION $'000	FOREST LAND VALUATION $'000	BUILDING COST $'000	ROADS BRIDGES COST $'000	PLANT EQUIPMENT COST $'000	MOTOR VEHICLES COST $'000	OFFICE EQUIPMENT COST $'000	WORK IN PROGRESS COST $'000	RIGHT OF USE ASSET $'000	TOTAL $'000
Balance at beginning of year	-	65,506	646	8,767	1,538	846	171	2	669	78,145
Purchases	-	3,846	5	439	42	111	27	12	30	4,512
Revaluation	-	6,745	-	-	-	-	-	-	-	6,745
Disposals		(335)	9	-	-	(242)	(3)	-	-	(571)
Balance at end of year	**-**	**75,762**	**660**	**9,206**	**1,580**	**715**	**195**	**14**	**699**	**88,831**
Accumulated depreciation/impairment										
Balance at beginning of year	-	2,378	187	4,647	1,074	478	128	-	88	8,980
Depreciation	-	-	20	218	69	107	14	-	126	554
Net Impairment reversal	-	(803)	-	-	-	-	-	-	-	(803)
Disposals	-	-	-	-	-	(207)	(2)	-	-	(209)
	-	**1,575**	**207**	**4,865**	**1,143**	**378**	**140**	**-**	**214**	**8,522**
BALANCE AT END OF YEAR	**-**	**74,187**	**453**	**4,341**	**437**	**337**	**55**	**14**	**485**	**80,309**
Comprising – Cost	-	-	453	4,341	437	337	55	14	485	6,122
– Valuation	-	74,187	-	-	-	-	-	-	-	74,187
Carrying amounts (revalued assets if measured under the cost model)	-	34,504	-	-	-	-	-	-	-	34,504

8. EQUITY - SHARE CAPITAL

	As at 30 June 2022 $,000	As at 30 June 2021 $,000
Issued Capital The Company has issued 25,690,522 ordinary shares and these are fully paid. Fully paid ordinary shares carry 1 vote per share and carry the right to dividends and pro rata share of net assets on winding up of the Company.	**25,691**	**25,691**

9. RESERVES

Forestry Reserve	As at 30 June 2022 $,000	Restated as at 30 June 2021 $,000	Restated as at 1 July 2020 $,000
Balance at beginning of the year	103,921	84,495	82,027
Transfer from retained earnings	(1,401)	19,426	2,468
BALANCE AT THE END OF THE YEAR	**102,520**	**103,921**	**84,495**

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

Hedging Reserve

Balance at beginning of the year	568	(399)	(394)
Gain/(loss) in fair value movement in derivatives	(3,144)	967	(5)
BALANCE AT THE END OF THE YEAR	**(2,578)**	**568**	**(399)**

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

Land Revaluation Reserve

Balance at beginning of the year	39,683	33,081	30,285
Forestry land revaluations	10,156	6,524	2,874
Plus (Less) deferred taxation	-	78	(78)
BALANCE AT THE END OF THE YEAR	**49,839**	**39,683**	**33,081**

Carbon Credit Reserve

Balance at beginning of the year	35,116	22,624	16,802
Gain in carbon credits above initial recognition value	28,933	12,492	9,588
Less transferred to retained earnings	(8,015)	-	(3,766)
BALANCE AT THE END OF THE YEAR	**56,034**	**35,116**	**22,624**

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

10. RETAINED EARNINGS

	As at 30 June 2022 $,000	Restated as at 30 June 2021 $,000	Restated as at 1 July 2020 $,000
Balance at the beginning of the year	**41,919**	**36,325**	**30,349**
Net profit/(loss) for the year	6,160	33,221	9,178
Dividend distributions	(6,800)	(8,200)	(4,500)
Transfer from (to) forestry reserve	1,401	(19,427)	(2,468)
Transfer from carbon credit reserve	8,015	-	3,766
BALANCE AT THE END OF THE YEAR	**50,695**	**41,919**	**36,325**

11. FINANCIAL INSTRUMENTS

Currency derivatives

Currency Risk

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

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

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

Outstanding Contracts	*Average exchange rate* 2022	*Foreign currency* 2022 FC'000	*Contract value* 2022 NZD'000	*Fair value* 2022 NZD'000	*Fair value* 2021 NZD'000
Cashflow hedges Sell USD					
Current	0.688	11,000	15,961	(1679)	880
Non-current	0.666	16,800	25,250	(1,901)	(2)
				(3,580)	**878**

2022

Financial Assets	<1 yr	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	5 yrs	TOTAL
Trade and other receivables	3,530	-	-	-	-	-	3,530
Derivative financial instruments	-	-	-	-	-	-	-
	3,530	**-**	**-**	**-**	**-**	**-**	**3,530**

Financial Liabilities	<1 yr	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	5 yrs	TOTAL
Trade and other payables	4,411	-	-	-	-	-	4,411
Derivative financial instruments	1,679	1,620	281	-	-	-	3,580
Borrowings	-	-	-	-	-	20,600	20,600
	6,090	**1,620**	**281**	**-**	**-**	**20,600**	**28,591**

2021	<1 yr	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	5 yrs	TOTAL
Financial Assets							
Trade and other receivables	3,927	-	-	-	-	-	3,927
Derivative financial instruments	928	283	-	-	-	-	1,211
	4,855	**283**	**-**	**-**	**-**	**-**	**5,138**
Financial Liabilities							
Trade and other payables	4,410	-	-	-	-	-	4,410
Derivative financial instruments	138	191	94	-	-	-	423
Borrowings	-	-	-	-	-	16,000	16,000
	4,548	**191**	**94**	**-**	**-**	**16,000**	**20,833**

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

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

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

The following parameters are used:

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

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

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

Interest Rate Swaps

Credit and Interest Rate Risk

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

The interest rate agreements are held with Dunedin City Treasury Limited in accordance with group credit policy. The credit risk is limited because the counterparty has a high credit rating assigned by international credit rating agencies. The carrying amount of financial assets recorded in the financial statements represents the Company's maximum exposure to credit risk.

Impairment of Financial Assets

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

- Trade receivables for sales of goods

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

Trade Receivables

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

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

The expected loss rates are based on the payment profiles of sales over a period of 24 months and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macro-economic factors affecting the ability of the customers to settle the receivables. The Company identifies increased debtor terms and accordingly adjusts the historical loss rates based on expected changes in these factors. All debtors have been used for the expected loss calculation.

On that basis, the loss allowance as at 30 June 2022 was determined as follows:

30 June 2022	Current	More than 30 days past due	More than 60 days past due	More than 120 days past due	Total
Expected loss rate	0.0%	0.0%	0.0%	0.0%	
Gross carrying amount – Trade receivables	907	2,597	-	26	3,530
Loss allowance	-	-	-	-	-

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

	As at 30 June 2022 $,000	As at 30 June 2021 $,000
Maturing in less than one year	-	3,000
Maturing between one and five years	-	-
Maturing after five years	-	-
	-	**3,000**

Liquidity Risk

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

Credit Risk

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

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

Sensitivity Analysis

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

- Proportional foreign exchange rate movement of -10% (depreciation of NZD) and a +10% (appreciation of the NZD) against the USD, from the year end rate of .6221.

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

	Notional Value	Interest rate				Foreign exchange			
	$'000	-100bp		+100bp		-10%		+10%	
		Equity	Profit	Equity	Profit	Equity	Profit	Equity	Profit
Financial Assets									
Derivatives Currency Hedges – Sell USD	41,211	-	-	-	-	4,965	-	(4,062)	-
Other Financial Assets	2,571	-	-	-	-	-	286	-	(234)
Financial Liabilities									
Interest rate swaps	-		-		-	-	-	-	-
Total increase/(decrease)			**-**		**-**	**4,965**	**286**	**(4,062)**	**(234)**

1. Accounts receivable within City Forests Limited include $1.59 million of USD denominated receivables at year end.
2. Derivatives subject to the hedge accounting regime are managed by the Company to be 100% effective and thus there is no sensitivity to equity change in either interest rates or exchange rates.
3. Borrowings are subject to an interest rate hedging policy. Sensitivity to any movement in the interest rate is limited to the effect on the amount of floating rate debt that exceeds the amount of the fixed rate hedge.
4. The carrying value of the derivative has been calculated based on rates on each individual contract.

Fair value of financial instruments

Fair value measurements recognised in the statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

Level 1 Fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 Fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3 Fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	2022				2021			
	Level 1	Level 2	Level 3	TOTAL	Level 1	Level 2	Level 3	TOTAL
	NZ $'000	NZ $'000	NZ $'000	NZ $'000	NZ $'000	NZ $'000	NZ $'000	NZ $'000
Financial Assets								
Derivative financial assets	-	-	-	-	-	1,211	-	1,211
New Zealand carbon credits	64,533	-	-	64,533	49,443	-	-	49,443
	64,533	**-**	**-**	**64,533**	**49,443**	**1,211**	**-**	**50,654**
Financial Liabilities								
Derivative financial liabilities	-	3,580	-	3,580	-	423	-	423
	-	**3,580**	**-**	**3,580**	**-**	**423**	**-**	**423**

ACCOUNTING POLICY

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

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

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

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

Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in equity and the ineffective portion is recognised immediately in the statement of comprehensive income via surplus or deficit. If the cash flow hedge of a firm commitment or forecasted transaction results in the recognition of an asset or a liability, then, at the time the asset or liability is recognised, the associated gains or losses on the derivative that had previously been recognised in equity are included in

the initial measurement of the asset or liability. For hedges that do not result in the recognition of an asset or a liability, amounts deferred in equity are recognised in the statement of comprehensive income via other comprehensive income in the same year in which the hedged item affects net profit or loss.

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

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

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

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

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

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

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

12. TERM BORROWINGS

	As at 30 June 2022 $,000	As at 30 June 2021 $,000
Dunedin City Treasury loan facility	20,600	16,000
	20,600	16,000

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

The effective rate of interest for the Dunedin City Treasury Limited loan facility, ranged between 2.50% and 4.39% (2021 2.85% – 4.39%).

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

Multi-option note facility	20,600	16,000

The repayment period on the term borrowings is as follows:

Current	-	-
Non Current	20,600	16,000
	20,600	**16,000**

ACCOUNTING POLICY

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

13. INCOME TAX

	As at 30 June 2022 $,000	Restated as at 30 June 2021 $,000
Net profit from continued operations	8,392	45,793
Profit before income tax	**8,392**	**45,793**
Tax thereon at 28%	2,350	12,822
PLUS/(LESS) THE TAX EFFECT OF DIFFERENCES		
Expenditure not deductible for taxation	(3,223)	(256)
Under / (over) tax provision in prior years	(12)	6
Plus income assessable for taxation	3,117	-
Tax effect of differences	**(118)**	**(250)**
Tax expense	**2,232**	**12,572**
TAX EXPENSE MADE UP AS FOLLOWS:		
Continued operations	2,232	12,572
	2,232	**12,572**
Effective tax rate	26.6%	27.4%
REPRESENTED BY		
Current tax provision	5,412	4,551
Deferred tax provision	(3,168)	8,015
Prior period Current tax adjustment	93	7
Prior period Deferred tax adjustment	(105)	(1)
	2,232	**12,572**

Tax Rate

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

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

ACCOUNTING POLICY

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

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

14. DEFERRED TAX LIABILITIES AND ASSETS

2022	OPENING BALANCE SHEET $'000	CHARGED TO EQUITY $'000	CHARGED TO INCOME $'000	CLOSING BALANCE SHEET ASSETS $'000	LIABILITIES $'000	NET $'000
Property, plant and equipment	277	-	(28)	-	249	249
Employee provisions	(72)	-	(9)	(81)	-	(81)
Forest	40,414	-	(544)		39,870	39,870
Capitalised forestry costs	10,638	-	422	-	11,060	11,060
Revaluations of foreign exchange contracts	246	(1,248)	-	(1,002)	-	(1,002)
Revaluations of interest rate swaps	(25)	25	-	-	-	-
Revaluation of carbon credits	13,653	11,233	(3,117)	-	21,769	21,769
Other	(2)	-	3	-	1	1
Balance at the end of the year	**65,129**	**10,010**	**(3,273)**	**(1,083)**	**72,949**	**71,866**

2021	$'000	Restated $'000	Restated $'000	Restated $'000	Restated $'000	Restated $'000
Property, plant and equipment	374	(78)	(19)	-	277	277
Employee provisions	(65)	-	(7)	(72)	-	(72)
Forest	32,859	-	7,555	-	40,414	40,414
Capitalised forestry costs	10,156	-	482	-	10,638	10,638
Revaluations of foreign exchange contracts	(93)	339	-	-	246	246
Revaluations of interest rate swaps	(62)	37	-	(25)	-	(25)
Revaluation of carbon credits	8,798	4,855	-	-	13,653	13,653
Other	(5)	-	3	(2)	-	(2)
Balance at the end of the year	**51,962**	**5,153**	**8,014**	**(99)**	**65,228**	**65,129**

ACCOUNTING POLICY

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

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

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

15. RELATED PARTY TRANSACTIONS

Transactions with Dunedin City Council Group

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

	As at 30 June 2022 $,000	As at 30 June 2021 $,000
Purchases of goods and services from the Dunedin City Council:		
Rates and property rentals	28	27
Other	4	-
	32	**27**
Dunedin City Holdings Limited		
Dividends	6,800	8,200
	6,800	**8,200**
Delta Utility Services Limited		
Roading & Earthmoving Services	450	400
Payable to Delta Utility Services Limited	28	19
Subvention payments/tax compensation		
Dunedin Stadium Property Limited	-	-
Aurora Energy Limited	3,172	3,124
Dunedin City Holdings Limited	468	532
Delta Utility Services Limited	-	-
Dunedin City Council	1,013	1,027
	4,653	**4,683**

Subvention payments are calculated based on the tax effect of the losses utilised.

Loan from Dunedin City Treasury Limited as at balance date	20,600	16,000
Loans received during the year	13,700	4,000
Loans paid during the year	18,300	5,000
Interest due to Dunedin City Treasury Limited as at balance date	41	39
Interest paid during the year	435	489
Interest rebate received	-	22
Net interest	435	467

Other related party transactions	As a 30 June 2022 $,000	As a 30 June 2021 $,000
Primeport Timaru Limited – Phillip Melhopt	18,246	-
Forest Growers Research Limited (resigned 15 March 2022) – Grant Dodson	5,750	5,750
Orokonui Ecosanctuary – Selwyn Chalmers	34,500	69,000

Compensation of key management personnel

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

	As at 30 June 2022 $,000	As at 30 June 2021 $,000
Salaries and Short-term benefits	1,186	1,105
	1,186	**1,105**

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

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

	As at 30 June 2022 $,000	Restated as at 30 June 2021 $,000
Net gain for the year	6,160	33,221
Items Not Involving Cash Flows		
Depreciation and loss on sale	596	870
Depletion of forest (cost of bush)	13,407	12,375
Deferred tax	(3,274)	8,014
Depreciation recovered/capital gains	(3)	(404)
Forestry revaluation	(9,475)	(38,164)
Write (up)/down value of land	(453)	(741)
Interest portion of lease liability	18	21
OTHER NON-CASH ITEMS		
Impact of Changes in Working Capital Items		
(Increase)/Decrease in accounts receivable	396	(594)
(Increase)/Decrease in inventories	(987)	373
(Increase)/Decrease in prepayments	125	1
(Increase)/Decrease in tax refund due	853	889
Increase/(Decrease) in accounts payable	187	510
Increase/(Decrease) in other current liabilities	174	116
Increase/(Decrease) in other current assets	(466)	(143)
Net cash inflows/(outflows) from operating activities	**7,258**	**16,344**

17. CAPITAL EXPENDITURE COMMITMENTS

As at 30 June 2022 the Company has capital commitments of $2,475,000 (2021 $1,000,000).

18. CONTINGENT ASSETS OR LIABILITIES

In future years there will be a carbon credit liability against a proportion of the carbon credits sequestered from post-1989 forest areas in accordance with New Zealand Emission Trading Scheme Regulations. A proportion of carbon sequestered from Post-1989 areas will have to be surrendered to compensate for the carbon liability generated from harvesting those forest areas. As at 30 June 2022 the value of the potential liability in future years is not known with sufficient certainty to be classified as a Contingent Liability due to the variations in the harvesting schedule, carbon reporting periods and the value of carbon to surrender. (2021 $nil.)There are no contingent assets. (2021 $nil).

19. LEASE LIABILITIES

	2022 $,000	**2021** $,000
Lease Liability		
Opening balance	501	590
Additions	95	30
Lease repayments	(141)	(141)
Interest charged	18	22
	473	**501**

Split by:		
Current liability	143	108
Non-current liability	330	393
	473	**501**

The maturity of the Lease Liability is as follows:	*< 1 year*	*1-2 years*	*2-3 years*	*4+years*	**TOTAL**
2022	142	96	84	151	**473**
2021	108	104	70	219	**501**

ACCOUNTING POLICY

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

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

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

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

(i) Measurement basis

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

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

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

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Company, the lessee's incremental borrowing rate is used.

The incremental borrowing rate is the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the Right-of Use asset in a similar economic environment with similar terms, security and conditions.

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

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

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

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

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

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

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

20. RECONCILIATION OF LIABILITIES FROM FINANCING ACTIVITIES

2022	2021 $'000	Cashflow $'000	Non cash changes: Capitalised Interest $'000	Non cash changes: Foreign Exchange Movement $'000	Non cash changes: Fair Value Changes $'000	2022 $'000
Long term borrowings	16,000	4,600	-	-	-	20,600
Derivative financial instruments	285	-	-	-	1,616	1,901
Short term derivative financial instruments	138	-	-	-	1,541	1,679
	16,423	**4,600**	**-**	**-**	**3,157**	**24,180**

2021	2020 $'000	Cashflow $'000	Non cash changes: Capitalised Interest $'000	Non cash changes: Foreign Exchange Movement $'000	Non cash changes: Fair Value Changes $'000	2021 $'000
Long term borrowings	17,000	(1,000)	-	-	-	16,000
Derivative financial instruments	261	-	-	-	24	285
Short term derivative financial instruments	399	-	-	-	(261)	138
	17,660	**(1,000)**	**-**	**-**	**(237)**	**16,423**

21. COVID-19

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

The Directors are aware that the Company may be impacted financially by COVID-19 over the coming period and this has been incorporated into future budgets and strategy. Significant judgements in the 2022 budget are that the company is able to continue harvesting and sell its product to domestic and export markets. Evidence to date; being ongoing sales orders from domestic and export customers within the bounds of historical market price fluctuations and normal customer credit arrangements support these assumptions. COVID-19 has resulted in significant increases in shipping costs for the export sector. The financial impact of the increases in shipping has been countered by rising log prices. As noted in note 7 above the COVID-19 outbreak has resulted in the valuer noting that there is significant market uncertainty in the land valuation. Based on the budget for the 12 months ended 30 June 2023 the Company will be able to meet its obligations to pay its debts as they fall due. This is supported by trading evidence subsequent to balance date. In the event that the risk situation deteriorates unexpectedly sufficient debt facility headroom is available to maintain the Company for a period of disrupted trading conditions.

22. EVENTS SUBSEQUENT TO BALANCE DATE

No significant events occurred subsequent to balance date. (2021 $10.75m).

STATEMENT OF SERVICE PERFORMANCE

FOR THE YEAR ENDED 30 JUNE 2022

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

	PERFORMANCE TARGET	ACHIEVEMENT
1a	The Company will achieve a 6% post-tax (or greater) return on shareholders' funds measured on a 3 year rolling average basis	Three year rolling average return on shareholders' funds is 7.8%.
1b	A review of the Company's long term strategic plan will have been completed which meets the objective of a 6% post-tax return on shareholders' funds measured on a 3 year rolling average basis.	Strategy day held on 15th February 2022. The Company's long term strategic plan was reviewed and adopted by the shareholder during the annual budget and statement of intent process. The plan incorporates a return on shareholders' funds of; 4.3% for the first 3 years measured on a forecast 3 year rolling average basis.
2a	No single customer will have received more than 30% of the Company's annual harvest by volume.	Our largest customer Daiken Southland received 11.1% of the Company's annual harvest volume.
2b	The percentage of annual supply to the domestic market by volume will be tracked.	Domestic log production was 28.5% by volume. (30.7% last year).
2c	The Company will participate in the New Zealand ETS and may realise returns from the sales of carbon stored in the Company forests in compliance with its Carbon Policy.	The Company continues to participate in the ETS. 150,000 NZU sales occurred during the period. This is in compliance with Carbon Policy.
2d	The Company will incorporate carbon accounting into the strategic plan in accordance with the requirements of the Emissions Trading Scheme.	The Company's 10-year strategy plan incorporates Carbon. Future Carbon sequestration and surrender obligations are forecast in accordance with the Company's ETS obligations.
3a	The Company's annual harvest volumes as detailed in the strategic plan will be within 30% of projected long term sustainable yield.	The annual harvest from the Company Forest estate during the year was 343,326m3 including billet wood. This is 95% of the sustainable yield of 360,000m3. Forecast harvest levels in the long-term strategic plan for the next 3 years are; 360k m3, 360k m3 and 379k m3. All are within +/- 30% of the sustainable yield.
3b	The Company will carry out annual forest inventory to measure and verify forest yield. The number of sample plots measured will be reported.	The Company completed 476 sample plots during the period.
3c.	A forest surveillance program will be in place as part of the National Surveillance program to assess the forest estate for pests and diseases.	The City Forests, forest health surveillance program was conducted during the 2021 – 2022 year.

	PERFORMANCE TARGET	ACHIEVEMENT
3d.	The annual fire plan will be updated and operational by 1 October each year.	Fire plan update was completed in September 2021 prior to the start of the fire season.
3e.	The Company will actively participate in regional land use and environmental planning processes.	The Company submits on regional planning processes and the National Environmental Standard – Plantation Forestry.
4a.	The Company will participate in industry research consortia (via the Forest Levy) to ensure research objectives are in line with Company Strategy and to gain financial leverage to achieve research objectives.	The Company has paid the Forest Growers Levy. Two staff are members of committees (through the Forest Owners Association) which are part of the process of allocating levy research funds. The Company Forest Levy contribution is pooled with industry and Government funds achieving considerable financial leverage enabling significant research to be undertaken.
4b.	The implementation of research outcomes into operational management plans will be tracked.	Management plans are updated to reflect current management practices which are informed by research outcomes, i.e. target tree stocking rates per hectare to optimise site carrying capacity..
5a.	The Company will maintain supply arrangements with Otago and Southland wood processors provided customers match (or better) alternative supply options.	Otago and Southland wood processors receive supply volumes in accordance with the annual plan. Pricing is negotiated each quarter. Customers have been given the option to decline or reduce supply if they are unable to match returns from alternative supply options (log export).
5b.	Annual supply volumes to major wood processors (Pan Pac, Daiken & Niagara) will be tracked and reported.	Major wood processors were suppled the following volumes during the period: Pan Pac: 9,034m3 Daiken: 38,109m3 Niagara: 64m3
5c.	The annual volume of wood supplied for bio-energy uses will be tracked and reported.	Bio-energy supply: 21,205m3
6a.	Lost time accident rates for staff and forest contractors will be minimised and not more than 15 lost time accidents per 1,000,000 hours worked.	12 month rolling lost time accident rate for staff and forest contractors was 12.2 lost time injuries per 1,000,000 hours.
6b.	The Company will undertake drug and alcohol testing of staff and the contract workforce. The number of random tests and percentage of positive tests will be reported.	62 tests were conducted during the period. No positive random tests were recorded.
6c.	Forest Stewardship Council Certification of the Forest Estate will be maintained.	Forest Stewardship Council Certification was maintained following audit in 2021.
6d.	The Company will have in place an environmental management system which will include procedures for sustainability monitoring. Results of water sampling and reserve area environmental assessments will be publicly available on the Company's website.	An environmental management system is in place with on-going monitoring of environmental values. This is available on the Company's website and includes water, soil disturbance and reserve biodiversity monitoring.

	PERFORMANCE TARGET	ACHIEVEMENT
6e.	The Company will work with partners Doc, University of Otago & contractors to maintain and enhance RT&E species on and around the Company estate. Sponsorship amounts for these activities will be reported annually	Sponsorship of $60,250 was awarded to Predator Free Dunedin, $6,522 to Tokomairiro High School, $10,000 to the Yellow Eyed Penguin Trust and $10,000 to The Dunedin Wildlife Hospital, Dunedin to contribute towards conservation of rare threatened and endangered (RT&E) species on and around the Company estate.
7a.	The company will report on the number of National Certificates achieved by its workforce each year.	Company Staff, Contractors and their employees achieved 15 National Certificates during the year.
7b.	The Company will engage with its contractors to participate in Modern Apprenticeship programs. The number of apprentices working in Company operations will be reported each year.	At 30 June 2022 one modern apprentice was employed in Company operations.
8a.	The Company will maintain a Forest Access Permit system, track and report on recreational use statistics.	Recreation use is monitored through forest access permit issuance. 314 forest access permits were issued during the year.
9a.	A continued and measured expansion of the forest estate will be part of Company Strategy. The area of acquired land will be reported annually.	Company has purchased 1072.2ha of land during the period.
9b.	Consult with the shareholder in a timely manner on DCHL Group strategic or operational matters which could compromise the Council's community outcomes. Any such matters were escalated to the shareholder in a timely manner.	No significant issues arose that would compromise Council community outcomes, however communication channels were maintained with the shareholder such that the shareholder is well informed of Company activities.
9c.	Report to the shareholder within 24 hours of the Board becoming aware of any substantive matter, including any matter likely to generate media coverage.	A small number of media interactions occurred throughout the period and the shareholder and board were communicated to within 24 hours informing them of the matter.
9d.	The Company will report on the proportion of its workforce (staff) receiving the living wage.	All staff renumeration is greater than the living wage.
9e.	Systems for measuring and publicly reporting carbon emissions are established. The company will develop an emissions reduction strategy and associated targets for inclusion in its 2022/2023 Statement of Intent.	An emissions reduction strategy has been developed in draft and incorporated into the 2022/2023 Statement of Intent.
9f.	The company will develop a waste reduction strategy and associated targets for inclusion in the 2022/2023 Statement of Intent.	A waste reduction strategy has been developed and incorporated into the 2022/2023 Statement of Intent.

	FORECASTS	$'000	ACTUAL	$'000
10a	EBITDA	27,100	EBITDA	9,413
10b	Profit after income tax	18,808	Profit after income tax	6,160
10c	Shareholders' funds to total assets	73.8%	Shareholders' funds to total assets	72.5%
10d	Dividend Distribution	5,500	Dividend Distribution	6,800
10e	Operating cashflow	11,500	Operating cashflow	7,258
10f	Capex	11,100	Capex	10,908
10g	Term debt	18,600	Term debt	20,600

Independent Auditor's Report

To the readers of City Forests Limited's financial statements and statement of service performance for the year ended 30 June 2022

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

Opinion

We have audited:

- the financial statements of the company on pages 28 to 58, that comprise the statement of financial position as at 30 June 2022, 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 59 to 61.

In our opinion:

- the financial statements of the company on pages 28 to 58:
    - present fairly, in all material respects:
        - its financial position as at 30 June 2022; and
        - its financial performance and cash flows for the year then ended; and
    - comply with generally accepted accounting practice in New Zealand in accordance with New Zealand's equivalent to International Financial Reporting Standards; and
- the statement of service performance of the company on pages 59 to 61 presents fairly, in all material respects, the company's actual performance compared against the performance targets and other measures by which performance was judged in relation to the company's objectives for the year ended 30 June 2022.

Our audit was completed on 29 November 2022. This is the date at which our opinion is expressed.

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

Emphasis of matter – Impact of Covid-19

Without modifying our opinion, we draw attention to the disclosures about the impact of Covid-19 on the company as set out in note 21 to the financial statements. We draw specific attention to note 7 on page 43 that outlines the significant uncertainties highlighted by the valuer related to estimating the fair values of the company's forestry land.

Basis for our opinion

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Our responsibilities arise from the Public Audit Act 2001.

Other information

The Board of Directors is responsible for the other information. The other information comprises the information included on pages 3 to 27, but does not include the financial statements and the statement of service performance, and our auditor's report thereon.

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

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

Independence

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

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

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


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