

**CITY FORESTS LIMITED**

**HALF-YEAR REPORT  
FOR THE SIX MONTHS  
ENDED  
31 DECEMBER 2016**

# **CITY FORESTS LIMITED**

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# **CITY FORESTS LIMITED**

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## **DIRECTORY**

**As at 31 December 2016**

### **DIRECTORS**

J F Gallaher (Chairman) – A.F.A., C.A., B Com., CM.Inst.D

T D Allison – B.Com., B.A., C.A., CM.Inst.D

T J Mepham – C.A., B Com, M Inst D

M C Horne – L.L.B., C.A. (P.P.), B.Com. CM.Inst.D

### **CHIEF EXECUTIVE OFFICER**

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

### **REGISTERED OFFICE**

31 Stafford Street

Dunedin

New Zealand

### **BANKERS**

Westpac Banking Corporation

### **SOLICITORS**

Gallaway Cook Allan

### **FINANCIAL ADVISERS**

Deloitte

### **AUDITOR**

Audit NZ on behalf of the Controller and Auditor General

# CITY FORESTS LIMITED

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## DIRECTORS' REPORT

### For the Six Months Ended 31 December 2016

The Directors of City Forests Limited present their report on the activities of the Company for the period ended 31 December 2016.

#### *Dividends*

The Directors paid an interim dividend of \$1,500,000 in December 2016.

#### *Review of Operations*

This review of operations and the accompanying financial reports cover the first six months of the 2016 / 2017 financial year.

The Company experienced profitable trading conditions and has delivered an above budget result for the first six months of the 2016 / 2017 financial year. No lost time injuries were recorded in Company operations during the period.

Forest production for the period was below budget and this was a result of agreed changes to the clear fell plan and contractor work schedules within the forest estate. The company traded additional volumes from third party suppliers to ensure customer commitments were met. A revised work plan is in place for the next six months to bring production back to budget levels by financial year end. This increase in wood flows is expected to deliver strong cash flow during the second half of the financial year.

There were no transactions of Carbon Credits (NZU's) under the New Zealand Emissions Trading Scheme and no changes in the value of the Forest Estate during the period. A devaluation of (\$0.642) million in the book value NZU's was recorded due to a market change in the price NZU's at the close of the period.

The Company's log markets have experienced a period of steady demand and relatively stable pricing during the period. The domestic log market has been busy with sawmill demand fuelled by strong domestic building activity. Log exports have been steady with strong returns. The combination of log sale prices in China and Korea, favourable export shipping costs and the New Zealand Dollar / United States Dollar exchange rate has delivered steady New Zealand Dollar returns over the first six months of the financial year.

The Company produced a satisfactory \$3.524 million profit before tax for the period. Cash flow performance was strong and the Company has continued to reduce debt after payment of an interim \$1.5m dividend to the shareholder.

During the period the Company has been successful in negotiating the purchase of several new forest areas. The majority of the Clutha District Council Forest Estate, some 325ha approximately and a private forest area adjacent to the Company's Millers Forest, some 72ha approximately is under conditional purchase contract. Both purchase contracts remain conditional on vendor subdivision and are expected to transact in the first quarter of 2017.

# CITY FORESTS LIMITED

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## DIRECTORS' REPORT

**For the Six Months Ended 31 December 2016**

The outlook for the second six months is for a continuation of strong market conditions in both the domestic and export log markets. Increased forest production during the coming six months is expected to deliver strong cash flows from these markets. The purchase of the new forest areas will be funded from cash flow and existing company debt funding arrangements.

Overall, the Company is experiencing a period of profitable trading conditions that are expected to deliver a steady second half financial performance.

### *Events Subsequent to Balance Date*

As noted above the Company has two purchase contracts for additional forestry blocks. As at 31<sup>st</sup> December the contracts were still conditional. If successful, the Company will have a capital commitment of \$5.095 million before 30<sup>th</sup> June 2017.

### *Statement of Responsibility*

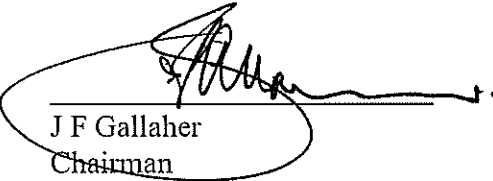
The Directors accept responsibility for the preparation of the interim financial statements and the judgement used in them.

The Directors accept responsibility for establishing and maintaining a system of internal controls designed to provide reasonable assurance as to the integrity and reliability of financial reporting.

In the opinion of the Directors, the interim financial statements fairly reflect the financial position and operations of City Forests Limited.

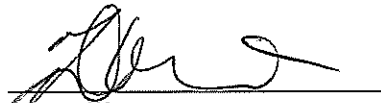
The Board of Directors of City Forests Limited have pleasure in presenting the interim financial statements, set out on pages 6 to 10, for the six months ended 31 December 2016 and authorises them for issue on Friday 17 February 2017.

On behalf of the Board of Directors:

  
J F Gallaher  
Chairman

17/2/17

Date

  
P D Allison  
Director

17/2/17

Date

# CITY FORESTS LIMITED

## Trend Statement

	6 Months Ended 31 Dec 16 \$'000	Year Ended 30 Jun 16 \$'000	Year Ended 30 Jun 15 \$'000	Year Ended 30 Jun 14 \$'000	Year Ended 30 Jun 13 \$'000
<b><u>FINANCIAL PERFORMANCE</u></b>					
Domestic Revenue	6,188	12,335	9,412	12,687	13,590
Export Revenue	9,345	33,861	26,751	22,108	18,983
Other Revenue	552	656	2,228	2,385	2,652
<b>Total Revenue</b>	<b>16,085</b>	<b>46,852</b>	<b>38,391</b>	<b>37,180</b>	<b>35,225</b>
Percentage Increase (Annualised)	(31.3%)	22.0%	3.2%	5.5%	(16.6%)
Inventory Movement	417	(224)	(170)	(308)	(479)
<b>Total Expenses</b>	<b>11,609</b>	<b>35,341</b>	<b>31,072</b>	<b>28,216</b>	<b>29,514</b>
Percentage Increase (Annualised)	(34.3%)	13.7%	(10.1%)	(4.4%)	(29.2%)
<b>Operating Surplus</b>	<b>4,893</b>	<b>11,287</b>	<b>7,149</b>	<b>8,656</b>	<b>5,232</b>
New Zealand Carbon Credits	-	1,462	-	2,694	6,172
Gain in Fair Value of Forestry Asset	-	9,524	2,515	1,571	7,046
Impairment Charges	-	-	80	(1,500)	-
<b>Surplus after Non-Operating Items and Before Taxation</b>	<b>4,893</b>	<b>22,273</b>	<b>9,744</b>	<b>11,421</b>	<b>18,450</b>
Income Tax	1,369	6,252	2,702	3,130	3,836
<b>Total Surplus after Taxation</b>	<b>3,524</b>	<b>16,021</b>	<b>7,042</b>	<b>8,291</b>	<b>14,614</b>
<b><u>SHAREHOLDERS' FUNDS</u></b>					
Shareholders Funds	117,661	115,670	96,649	95,932	91,725
Operating Cashflow	6,624	11,787	8,734	8,278	17,263
Dividends Provided – Normal	1,500	4,500	4,500	2,600	2,400
– Special	-	2,000	500	2,500	2,000
Value of Forest	123,551	123,802	113,629	111,093	108,589
Surplus after tax to shareholders funds	5.99%	13.85%	7.29%	8.64%	15.93%
Proprietorship Ratio	67.18%	65.12%	62.52%	63.34%	61.89%
Net Forest Revaluation	-	9,524	1,811	1,131	5,073
Net Land Revaluation	-	-	(22)	(102)	-
<b><u>FOREST STATISTICS</u></b>					
Forest harvested (m <sup>3</sup> )	125,577	306,452	299,377	284,373	302,096
Volume traded (m <sup>3</sup> ) (Outside Jobs)	38,268	71,364	18,530	2,583	1,917
Forest planted (ha)	413	487	605	602	520
Total forest (ha)	16,738	16,469	16,315	16,326	16,114
Forest purchased (ha)	-	156	-	204	-

# CITY FORESTS LIMITED

## Statement of Comprehensive Income

For the Six Months Ended 31 December 2016

	Note	Unaudited Six months to 31 December 2016 \$'000	Unaudited Six months to 31 December 2015 \$'000	Audited Year to 30 June 2016 \$'000
Sales revenue		15,777	23,849	46,663
Gain on sale of property, plant and equipment		32	9	22
Other revenue		79	137	157
New Zealand carbon credits		-	1,462	1,462
Financial income		197	7	11
Gain (loss) in fair value of forestry asset		-	-	9,524
<b>Total revenue</b>		<b>16,085</b>	<b>25,464</b>	<b>57,839</b>
Inventory movement		417	(273)	(224)
<b>Less expenses</b>				
Audit fees		18	18	34
Contractors		5,848	7,842	14,192
Cost of bush applied		1,161	959	1,535
Depreciation and amortisation expense		188	200	410
Donations		1	1	8
Directors fees		69	68	137
Employee expenses		725	720	1,398
Financial expenses		428	484	1,235
Rental expense on operating leases		30	40	76
Research expenditure		74	86	192
Shipping costs		1,607	3,372	6,147
Other expenses		1,460	4,389	9,978
<b>Total expenses</b>		<b>11,609</b>	<b>18,179</b>	<b>35,342</b>
<b>Profit before tax</b>		<b>4,893</b>	<b>7,012</b>	<b>22,273</b>
Income tax expense		1,369	1,964	6,252
<b>Net profit/(loss) after tax</b>		<b>3,524</b>	<b>5,048</b>	<b>16,021</b>
<b>Other comprehensive income</b>				
Gains/(loss) on foreign exchange hedges taken to equity		323	943	1,971
Tax effect of foreign exchange hedges taken to equity		(90)	(264)	(552)
Increase/(decrease) in land revaluation		(13)	-	-
Carbon credits revaluation above initial recognition taken to equity		(821)	2,622	10,832
Tax effect of carbon credits taken to equity		179	(570)	(2,362)
<b>Other comprehensive income for the period</b>		<b>(422)</b>	<b>2,731</b>	<b>9,889</b>
<b>Total Comprehensive Income for the period</b>		<b>3,102</b>	<b>7,779</b>	<b>25,910</b>

# CITY FORESTS LIMITED

## Statement of Changes in Equity For the Six Months Ended 31 December 2016

	Share capital \$'000	Hedge reserve \$'000	Forest revaluation reserve \$'000	Carbon credit reserve \$'000	Land revaluation reserve \$'000	Retained earnings \$'000	Total equity \$'000
<b>Unaudited</b>							
Equity as at 1 July 2016	25,691	(955)	55,799	11,290	14,847	9,387	116,059
Profit after income tax						3,524	3,524
Other comprehensive income for the period		233		(642)	(13)		(422)
Dividend distributions						(1,500)	(1,500)
<b>Equity as at 31 December 2016</b>	<b>25,691</b>	<b>(722)</b>	<b>55,799</b>	<b>10,648</b>	<b>14,834</b>	<b>11,411</b>	<b>117,661</b>
<b>Unaudited</b>							
Equity as at 1 July 2015	25,691	(2,373)	48,942	2,820	14,847	6,722	96,649
Profit after income tax						5,048	5,048
Other comprehensive income for the period		679		2,052			2,731
Dividend distributions						(1,500)	(1,500)
<b>Equity as at 31 December 2015</b>	<b>25,691</b>	<b>(1,694)</b>	<b>48,942</b>	<b>4,872</b>	<b>14,847</b>	<b>10,270</b>	<b>102,928</b>
<b>Audited</b>							
Equity as at 1 July 2015	25,691	(2,373)	48,942	2,820	14,847	6,722	96,649
Profit after income tax						16,021	16,021
Total comprehensive income for the period		1,418	6,857	8,470		(6,856)	9,889
Dividend distributions						(6,500)	(6,500)
<b>Equity as at 30 June 2016</b>	<b>25,691</b>	<b>(955)</b>	<b>55,799</b>	<b>11,290</b>	<b>14,847</b>	<b>9,387</b>	<b>116,059</b>



# CITY FORESTS LIMITED

## Balance Sheet

At 31 December 2016

	Note	Unaudited 31 December 2016 \$'000	Unaudited 31 December 2015 \$'000	Audited 30 June 2016 \$'000
<b>Equity</b>				
Share capital		25,691	25,691	25,691
Forest reserve		55,799	48,942	55,799
Land revaluation reserve		14,834	14,847	14,847
Hedging reserve		(722)	(1,694)	(955)
Carbon credit reserve		10,648	4,872	11,290
Retained earnings		11,411	10,270	9,387
<b>Total Equity</b>		<u>117,661</u>	<u>102,928</u>	<u>116,059</u>
<b>Current Liabilities</b>				
Trade and other payables		1,491	2,435	3,098
Other current liabilities		123	151	293
Employee provisions		133	129	120
Derivative financial instruments	7	399	1,796	524
Current portion of term borrowings		1,686	1,686	1,686
Provision for taxation		3,010	1,098	2,274
Provision for dividend		-	-	1,000
<b>Total current liabilities</b>		<u>6,842</u>	<u>7,295</u>	<u>8,995</u>
<b>Non-Current Liabilities</b>				
Derivative financial instruments	7	672	629	947
Term borrowings	8	14,689	17,959	16,832
Other liabilities		320	320	320
Deferred tax liability		34,940	30,230	34,871
<b>Total non-current liabilities</b>		<u>50,621</u>	<u>49,138</u>	<u>52,970</u>
<b>Total Liabilities</b>		<u>57,463</u>	<u>56,433</u>	<u>61,965</u>
<b>TOTAL EQUITY PLUS LIABILITIES</b>		<u>175,124</u>	<u>159,361</u>	<u>178,024</u>

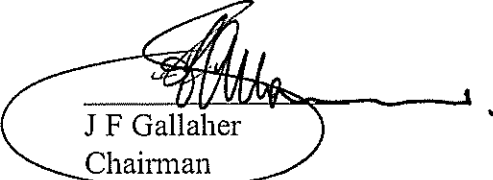
# CITY FORESTS LIMITED

## Balance Sheet (cont'd)

At 31 December 2016

		Unaudited 31 December 2016 \$'000	Unaudited 31 December 2015 \$'000	Audited 30 June 2016 \$'000
<b>Current Assets</b>				
Cash and cash equivalents		1,270	1,733	302
Trade and other receivables		969	3,265	4,162
Derivative financial instruments	7	16	29	69
Inventories		610	144	193
Prepayments		477	129	274
Other current asset		175	224	253
Property intended for sale		-	-	16
<b>Total current assets</b>		<b>3,517</b>	<b>5,524</b>	<b>5,269</b>
<b>Non-Current Assets</b>				
Derivative financial instruments	7	53	43	76
Property, plant and equipment	5	31,507	30,903	31,556
Forestry assets	4	123,551	113,776	123,802
Investments		1	1	1
Intangibles – computer software		28	36	32
Intangibles – New Zealand carbon credits		16,467	9,078	17,288
<b>Total non-current assets</b>		<b>171,607</b>	<b>153,837</b>	<b>172,755</b>
<b>TOTAL ASSETS</b>		<b>175,124</b>	<b>159,361</b>	<b>178,024</b>

For and on behalf of the Board of Directors

  
J F Gallaher  
Chairman

  
T D Allison  
Director

17<sup>th</sup> February 2017

# CITY FORESTS LIMITED

## Statement of Cash Flows

For the Six Months Ended 31 December 2016

	Note	Unaudited Six months to 31 December 2016 \$'000	Unaudited Six months to 31 December 2015 \$'000	Audited Year to 30 June 2016 \$'000
<b>Cash Flows from Operating Activities</b>				
<i>Cash was provided from</i>				
Receipts from customers		19,465	24,710	46,780
Interest received		6	7	11
Effect of Exchange Rate Changes		192	-	-
		<u>19,663</u>	<u>24,717</u>	<u>46,791</u>
<i>Cash was disbursed to</i>				
Payments to suppliers and employees		12,140	16,485	31,871
Interest paid		424	490	899
Income tax		475	1,333	1,884
Effect of exchange rate changes		-	267	350
		<u>13,039</u>	<u>18,575</u>	<u>35,004</u>
<b>Net Cash Inflows / (Outflows) from Operating Activities</b>	<b>3</b>	<b>6,624</b>	<b>6,142</b>	<b>11,787</b>
<b>Cash Flows from Investing Activities</b>				
<i>Cash was provided from</i>				
Sale of property, plant and equipment		35	20	37
		<u>35</u>	<u>20</u>	<u>37</u>
<i>Cash was disbursed to</i>				
Purchase of property, plant and equipment		138	738	1,627
Purchase of Forest Assets – Cost of bush		710	872	1,753
		<u>848</u>	<u>1,610</u>	<u>3,380</u>
<b>Net Cash Inflows / (Outflows) from Investing Activities</b>		<b>(813)</b>	<b>(1,590)</b>	<b>(3,343)</b>

# CITY FORESTS LIMITED

## Statement of Cash Flows (cont'd)

For the Six Months Ended 31 December 2016

	Unaudited Six months to 31 December 2016 \$'000	Unaudited Six months to 31 December 2015 \$'000	Audited Year to 30 June 2016 \$'000
<b>Cash Flows from Financing Activities</b>			
<i>Cash was provided from</i>			
Proceeds from borrowings	1,060	450	3,790
	<u>1,060</u>	<u>450</u>	<u>3,790</u>
<i>Cash was disbursed to</i>			
Repayment of borrowings	3,403	2,243	6,906
Dividends paid	2,500	1,500	5,500
	<u>5,903</u>	<u>3,743</u>	<u>12,406</u>
<b>Net Cash Inflows / (Outflows) from Financing Activities</b>	(4,843)	(3,293)	(8,616)
<b>Net Increase / (Decrease) in Cash Held</b>	968	1,259	(172)
Cash and short term deposits at the beginning of the year	<u>302</u>	<u>474</u>	<u>474</u>
<b>CASH AND SHORT TERM DEPOSITS AT THE END OF THE PERIOD</b>	<u>1,270</u>	<u>1,733</u>	<u>302</u>
<b>Composition of Cash</b>			
Cash and short term deposits	<u>1,270</u>	<u>1,733</u>	<u>302</u>
<b>CASH AND SHORT TERM DEPOSITS AT THE END OF THE PERIOD</b>	<u>1,270</u>	<u>1,733</u>	<u>302</u>

# **CITY FORESTS LIMITED**

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## **Notes to the Financial Statements** **For the Six Months Ended 31 December 2016**

### **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 31 Stafford Street, Dunedin

City Forests Limited is a profit orientated entity.

These financial statements have been prepared in accordance with the requirements of the Local Government Act 2002, the Companies Act 1993 and the Financial Reporting Act 2013.

These financial statements are presented in New Zealand dollars because that is the currency of the primary economic environment in which the company operates.

### **2. BASIS OF PREPARATION**

The financial statements for the period ended 31 December 2016 are unaudited.

The financial statements have been prepared in accordance with New Zealand Equivalents to International Reporting Standards 34, Interim Financial Reporting, and should be read in conjunction with the audited financial statements for the year ended 30 June 2016.

The accounting policies applied are consistent with those published in the annual report for the year ended 30 June 2016.

The judgement, estimates and assumptions used to prepare these interim financial statements are consistent with those used at 30 June 2016.

# CITY FORESTS LIMITED

## Notes to the Financial Statements (cont'd)

For the Six Months Ended 31 December 2016

### 3. RECONCILIATION OF NET SURPLUS FOR THE PERIOD TO CASH FLOWS FROM OPERATING ACTIVITIES

	Unaudited 31 December 2016 \$'000	Unaudited 31 December 2015 \$'000	Audited 30 June 2016 \$'000
Net gain/(loss) for the year	3,524	5,048	16,021
<i>Items Not Involving Cash Flows</i>			
Depreciation and loss on sale	190	200	410
Depletion of forest	1,160	959	1,535
Deferred tax	159	680	3,241
Depreciation recovered/capital gains	(32)	(9)	(22)
Forestry revaluation	-	-	(9,524)
Carbon credits allocated/revaluation	-	(1,462)	(1,462)
Other non-cash items			
<i>Impact of Changes in Working Capital Items</i>			
(Increase)/Decrease in accounts receivable	3,193	730	(166)
(Increase)/Decrease in inventories	(417)	273	224
(Increase)/Decrease in prepayments	(203)	52	(92)
(Increase)/Decrease in tax refund due	736	(48)	1,128
Increase/(Decrease) in accounts payable	(1,776)	(323)	485
Increase/(Decrease) in other current liabilities	12	4	9
(Increase)/Decrease in current assets	78	38	-
Net cash inflows/(outflows) from operating activities	6,624	6,142	11,787

# CITY FORESTS LIMITED

## Notes to the Financial Statements (cont'd) For the Six Months Ended 31 December 2016

### 4. FORESTRY ASSETS

	Unaudited 31 December 2016 \$'000	Unaudited 31 December 2015 \$'000	Audited 30 June 2016 \$'000
Balance at the beginning of the year	123,802	113,629	113,629
Add Costs capitalized in establishing forests during the year	910	1,947	1,106
Increase in forest from acquisition	-	237	-
Forest revaluation	-	9,524	-
Less Cost of trees harvested	(1,161)	(1,535)	(959)
	123,551	123,802	113,776

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

### 5. PROPERTY, PLANT AND EQUIPMENT

Opening balance	31,566	30,566	30,566
Plus purchases	137	551	1,406
Less disposals	(4)	(26)	(16)
Less property intended for sale	-	-	(16)
Less depreciation	(179)	(188)	(384)
Less revaluations	(13)	-	-
	31,507	30,903	31,556
Capital commitments	5,095	-	-

All assets are shown at cost with the exception of land which are valued based on Quotable Valuation which is the valuation company used by the relevant city and district councils.

The Company has a commitment to purchase \$5.095 million of forest and land assets in the first quarter of 2017.

### 6. FINANCIAL INSTRUMENTS

All financial assets are recognised at cost/face value while financial liabilities are recognised at amortised cost except derivative financial instruments which are recognised at fair value.



# CITY FORESTS LIMITED

## Notes to the Financial Statements (cont'd) For the Six Months Ended 31 December 2016

### 7. DERIVATIVE FINANCIAL INSTRUMENTS

	Unaudited 31 December 2016 \$'000	Unaudited 31 December 2015 \$'000	Audited 30 June 2016 \$'000
Assets:			
Forward foreign exchange contracts	69	72	145
Interest rate swaps	-	-	-
	69	72	145
Liabilities:			
Forward foreign exchange contracts	592	1,557	519
Interest rate swaps	479	868	952
	123,551	123,802	113,776

### 8. TERM LOANS

Dunedin City Treasury loan facility	10,500	12,480	12,000
Ministry of Primary Industries	4,189	5,479	4,832
	14,689	17,959	16,832

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

### 9. CARBON CREDITS

Opening balance	17,288	4,994	4,994
Plus credits allocated	-	1,461	1,461
Plus/(less) revaluation	(821)	2,624	10,833
Closing balance	16,467	9,079	17,288

Carbon credits are revalued based on marked to market every 6 months. Credits allocated are valued at the current market price.

### 10. CONTINGENT LIABILITIES

There are no contingent liabilities as at 31 December 2016, (prior periods \$nil).