

CITY FORESTS LIMITED

CITY FORESTS LIMITED

**HALF-YEAR REPORT
FOR THE SIX MONTHS
ENDED
31 DECEMBER 2021**

CITY FORESTS LIMITED

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CITY FORESTS LIMITED

DIRECTORY

As at 31 December 2021

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 Mepharm – 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., eBA., 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)

CHIEF EXECUTIVE OFFICER

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

REGISTERED OFFICE

123 Crawford Street
Dunedin
New Zealand

BANKERS

Westpac Banking Corporation

SOLICITORS

Gallaway Cook Allan

ACCOUNTANTS

Deloitte

AUDITOR

Audit NZ on behalf of the Controller and Auditor General

CITY FORESTS LIMITED

DIRECTORS' REPORT

For the Six Months Ended 31 December 2021

The Directors of City Forests Limited present their report on the activities of the Company for the period ended 31 December 2021.

Dividends

The Company paid a budgeted interim dividend of \$2,000,000 and a special dividend of \$1,800,000 which was paid to comply with the Company dividend policy based on financial overperformance in the last quarter of the 2021 financial year.

Review of Operations

This review of operations and the accompanying financial reports cover the first six months of the 2021 / 2022 financial year.

The Company experienced profitable trading conditions and delivered a \$3.997m profit after tax for the first six months of the 2021 / 2022 financial year. This is less than that recorded for the same period of the previous year (\$4.94m) and reflects the weaker log export trading conditions encountered during the period.

No serious harm injuries were recorded in Company operations during the period. The Company has met its Health and Safety targets during the period.

Forest production for the period was below budget as the Company temporarily reduced harvesting below its sustainable cut level to adjust to a period of reduced demand from log export markets. The Company traded limited volumes of logs from third party suppliers during the period to ensure customer commitments were met.

There were two sales transactions of Carbon Credits (NZU's) during the period. The asset value of NZU's held was increased on 31 December 2021 to reflect current market value. This led to a significant increase in NZU asset value. No change in the value of the Forest Estate was recorded during the period (see note 2).

The Company's log markets, particularly the China export market, experienced weaker demand and pricing during the period due to the impacts of Covid-19 and financial risk issues within the China construction industry. In contrast the New Zealand domestic log market remains robust, however the Company's log supply to domestic mills is limited by processing capacity and customer demand.

The export log sale price in New Zealand Dollar terms has been further negatively impacted by the cost of international shipping which has continued to increase during the period with some easing occurring in December 2021.

The international economic conditions as a result of the Covid-19 pandemic and a rise in geopolitical tensions have negatively impacted the Chinese and Korean log market demand and price. Overall, conditions are expected to remain volatile for some time.

CITY FORESTS LIMITED

DIRECTORS' REPORT (cont'd)

For the Six Months Ended 31 December 2021

During the period, the Company purchased the land underlying the previous McCrostie joint venture area at Kaitangata (314 ha). The Company now owns 100% of the tree crop and all the underlying land that made up the original joint venture area. The purchases will increase both wood and carbon production from the forest estate. As has been done previously the purchase of the new land and forest will be funded from cash flow or the sale of carbon credits or existing Company debt funding arrangements.

Further opportunities to expand the Company estate in accordance with Company Strategy are under investigation. The Company has a purchase contract to acquire the Tenby estate which is a land and forest crop purchase that will transact on 1st March 2022.

The Company has continued sponsorship agreements with Otago Natural History Trust (Orokonui Eco Sanctuary) \$30,000, the Yellow Eyed Penguin Trust \$10,000 and the Wildlife Hospital Trust \$5,000. Within the forest estate the Company is funding ecological research and protection activities for the NZ Falcon (Karearea) which is commonly found hunting and nesting in exotic forest areas. Operational pest control contributions continue to be made to Predator Free Dunedin.

Events Subsequent to Balance Date

No events have occurred subsequent to balance date.

The long-term impacts of Covid-19 on the Company's export markets have yet to be fully determined. Currently, customer orders are forthcoming across both the domestic and export markets, log prices although variable are robust and customer credit terms are normal. The combination of Covid-19 pandemic impacts and increased geopolitical tensions may lead to increased market and supply chain volatility over the coming period.

Statement of Responsibility

The Directors accept responsibility for the preparation of the interim financial statements and the judgements 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.

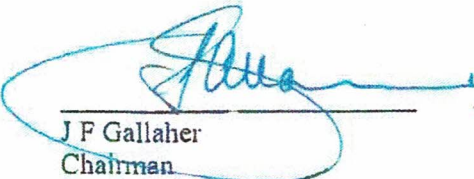
The Board of Directors of City Forests Limited have pleasure in presenting the interim financial statements, set out on pages 8 to 13, for the six months ended 31 December 2021 and authorises them for issue on Tuesday 15th February 2022.

CITY FORESTS LIMITED

DIRECTORS' REPORT (cont'd)

For the Six Months Ended 31 December 2021

On behalf of the Board of Directors:



J F Gallaher
Chairman

15/2/22

Date



T J Mepham
Director

15/2/22

Date

CITY FORESTS LIMITED

Trend Statement

	6 Months Ended 31 Dec 21 S'000	6 Months Ended 31 Dec 20 S'000	Year Ended 30 Jun 21 S'000	Year Ended 30 Jun 20 S'000	Year Ended 30 Jun 19 S'000
<u>FINANCIAL PERFORMANCE</u>					
Domestic Revenue	4,770	5,583	12,001	9,553	11,831
Export Revenue	24,419	23,093	51,660	37,085	46,785
Other Revenue	961	567	1,433	576	432
Total Revenue	30,150	29,243	65,094	47,214	59,048
Percentage Increase (Annualised)	0.01%	23.9%	37.8%	(20.0%)	9.4%
Inventory Movement	1,147	(1,088)	(916)	(43)	86
Total Expenses	32,338	28,411	57,352	48,484	48,484
Percentage Increase (Annualised)	(0.11%)	17.2%	26.5%	(5.2%)	5.9%
Operating Surplus	(1,041)	(256)	6,888	1,245	10,650
New Zealand Carbon Credits	-	-	5,069	4,861	4,247
Gain in Fair Value of Forestry Asset	6,601	6,897	38,164	11,628	20,333
Write down value of land	-	62	803	(69)	(462)
Surplus after Non-Operating Items and Before Taxation	5,560	6,703	50,862	17,665	34,768
Income Tax	1563	1,763	13,991	4,987	9,536
Total Surplus after Taxation	3,997	4,940	36,871	12,678	25,232
<u>SHAREHOLDERS' FUNDS</u>					
Shareholders Funds	266,928	208,494	246,898	201,816	184,759
Operating Cashflow	6,226	9,102	16,344	5,659	13,578
Dividends Provided – Normal	2,000	2,000	4,200	4,500	6,500
– Special	1,800	2,000	4,000	-	1,500
Value of Forest	201,440	171,699	200,246	169,150	164,010
Surplus after tax to shareholders funds	1.50%	2.37%	14.93%	6.28%	13.66%
Proprietorship Ratio	73.40%	72.31%	73.06%	72.12%	71.60%
Net Forest Revaluation	-	-	27,478	8,374	14,640
Net Land Revaluation	-	(220)	7,327	2,796	4,735
<u>FOREST STATISTICS</u>					
Forest harvested (m ³)	152,238	198,074	388,664	310,100	336,374
Volume traded (m ³) (Outside Jobs)	17,127	1,718	13,597	27,093	31,967
Forest planted (ha)	573	619	1,030	970	765
Total forest (ha)	19,362	19,129	19,324	19,050	18,143
Forest crop purchased (ha)	-	58	87	-	38

CITY FORESTS LIMITED

Statement of Comprehensive Income For the Six Months Ended 31 December 2021

	Note	Unaudited Six months to 31 December 2021 S'000	Unaudited Six months to 31 December 2020 S'000	Audited Year to 30 June 2021 S'000
Sales revenue		29,189	28,676	63,662
Gain on sale of property, plant and equipment		3	330	404
Other revenue		239	275	1,465
New Zealand carbon credits		-	-	5,069
Financial income		719	2	366
Gain (loss) in fair value of forestry asset		6,601	6,897	38,164
Total revenue		36,751	36,180	109,130
Inventory movement		1,250	(799)	(916)
Less expenses				
Audit fees		26	38	49
Contractors		9,867	11,668	18,115
Cost of bush applied		7,434	7,520	12,375
Depreciation and amortisation expense		270	282	571
Donations		-	1	19
Directors fees		93	72	177
Employee expenses		912	789	2,028
Financial expenses		229	644	513
Rental expense on operating leases		-	1	-
Research expenditure		20	82	-
Shipping costs		10,463	5,517	17,704
Other expenses		3,127	2,064	5,801
Total expenses		32,441	28,678	57,352
Profit before tax		5,560	6,703	50,862
Income tax expense		1,563	1,763	13,991
Net profit/(loss) after tax		3,997	4,940	36,871
Other comprehensive income				
Gains/(loss) on cash flow hedges taken to equity		(304)	2,849	1,342
Tax effect of cash flow hedges taken to equity		85	(798)	(376)
Increase/(decrease) in land revaluation		-	(221)	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		27,850	5,428	12,279
Tax effect of carbon credits taken to equity		(7,798)	(1,520)	(3,436)
Other comprehensive income for the period		19,833	5,738	16,411
Total Comprehensive Income for the period		23,830	10,678	53,282

CITY FORESTS LIMITED

Statement of Changes in Equity For the Six Months Ended 31 December 2021

	Share capital S'000	Hedge reserve S'000	Forest revaluation reserve S'000	Carbon credit reserve S'000	Land revaluation reserve S'000	Retained earnings S'000	Total equity S'000
Unaudited							
Equity as at 1 July 2021	25,691	568	103,921	16,862	39,683	60,173	246,898
Profit after income tax	-	-	-	-	-	3,997	3,997
Other comprehensive income for the period	-	(219)	-	18,395	-	1,657	19,833
Dividend distributions	-	-	-	-	-	(3,800)	(3,800)
Equity as at 31 December 2021	25,691	349	103,921	35,257	39,683	62,027	266,928
Unaudited							
Equity as at 1 July 2020	25,691	(399)	84,495	8,019	33,081	50,929	201,816
Profit after income tax	-	-	-	-	-	4,940	4,940
Other comprehensive income for the period	-	2,051	-	3,908	(221)	-	5,738
Dividend distributions	-	-	-	-	-	(4,000)	(4,000)
Equity as at 31 December 2020	25,691	1,652	84,495	11,927	32,860	51,869	208,494
Audited							
Equity as at 1 July 2020	25,691	(399)	84,495	8,019	33,081	50,929	201,816
Profit after income tax	-	-	-	-	-	36,871	36,871
Other comprehensive income for the period	-	967	-	8,842	6,602	-	16,411
Transfer of carbon reserve	-	-	-	-	-	-	-
Revaluation of forestry assets	-	-	19,426	-	-	(19,427)	-
Dividend distributions	-	-	-	-	-	(8,200)	(8,200)
Equity as at 30 June 2021	25,691	568	103,921	16,862	39,683	60,173	246,898

CITY FORESTS LIMITED

Balance Sheet As at 31 December 2021

	Note	Unaudited 31 December 2021 S'000	Unaudited 31 December 2020 S'000	Audited 30 June 2021 S'000
Equity				
Share capital		25,691	25,691	25,691
Forest reserve		103,921	84,495	103,921
Land revaluation reserve		39,683	32,860	39,683
Hedging reserve		349	1,652	568
Carbon credit reserve		35,257	11,928	16,862
Retained earnings		62,027	51,868	60,173
Total Equity		266,928	208,494	246,898
Current Liabilities				
Trade and other payables		1,843	2,313	4,042
Other current liabilities		73	56	82
Employee provisions		244	186	286
Derivative financial instruments	7	-	-	138
Provision for taxation		6,674	6,136	4,559
Lease liability		108	128	108
Total current liabilities		8,942	8,819	9,215
Non-Current Liabilities				
Derivative financial instruments	7	13	139	285
Term borrowings	8	15,150	15,800	16,000
Lease liability		340	501	393
Other liabilities		-	-	-
Deferred tax liability		72,290	54,591	65,129
Total non-current liabilities		87,793	71,031	81,807
Total Liabilities		96,735	79,850	91,022
TOTAL EQUITY PLUS LIABILITIES		363,663	288,344	337,920

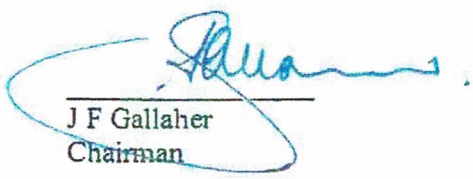
CITY FORESTS LIMITED

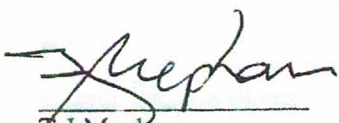
Balance Sheet (cont'd)

At 31 December 2021

		Unaudited 31 December 2021 \$'000	Unaudited 31 December 2020 \$'000	Audited 30 June 2021 \$'000
Current Assets				
Cash and cash equivalents		2,127	4,124	1,477
Trade and other receivables		693	2,163	3,927
Derivative financial instruments	7	143	1,422	928
Inventories		1,873	554	726
Prepayments		130	253	135
GST refund		177	163	423
Deposit on property purchase		1,075	105	-
Total current assets		6,218	8,784	7,616
Non-Current Assets				
Derivative financial instruments	7	355	1,012	283
Property, plant and equipment	5	81,454	69,426	80,309
Forestry assets	4	201,440	171,699	200,246
Investments		2	1	1
Intangibles – computer software		32	24	22
Intangibles – New Zealand carbon credits		74,162	37,398	49,443
Total non-current assets		357,445	279,560	330,304
TOTAL ASSETS		363,663	288,344	337,920

For and on behalf of the Board of Directors


J F Gallaher
Chairman


T J McPham
Director

15th February 2022

CITY FORESTS LIMITED

Statement of Cash Flows

For the Six Months Ended 31 December 2021

	Note	Unaudited Six months to 31 December 2021 S'000	Unaudited Six months to 31 December 2020 S'000	Audited Year to 30 June 2021 S'000
Cash Flows from Operating Activities				
<i>Cash was provided from</i>				
Receipts from customers		29,219	31,417	63,869
Interest received		-	2	2
GST refunds		1,729		
Effect of exchange rate changes		719		342
Income tax refund		-	1,015	-
		31,667	32,434	64,213
<i>Cash was disbursed to</i>				
Payments to suppliers and employees		25,234	22,705	43,712
Interest paid		207	247	489
Income tax/subvention		-	-	3,668
Effect of exchange rate changes		-	380	-
		25,441	23,332	47,869
Net Cash Inflows / (Outflows) from Operating Activities	3	6,226	9,102	16,344
Cash Flows from Investing Activities				
<i>Cash was provided from</i>				
Carbon credits sold		3,131	-	-
Sale of property, plant and equipment		51	1,575	1,637
		3,182	1,575	1,637
<i>Cash was disbursed to</i>				
Purchase of property, plant and equipment		2,016	792	4,419
Purchase of Forest Assets – Cost of bush		2,028	2,628	4,763
Purchase of Carbon Credits		-	-	125
		4,044	3,420	9,307
Net Cash Inflows / (Outflows) from Investing Activities		(862)	(1,845)	(7,670)

CITY FORESTS LIMITED

Statement of Cash Flows (cont'd) For the Six Months Ended 31 December 2021

	Unaudited Six months to 31 December 2021 S'000	Unaudited Six months to 31 December 2020 S'000	Audited Year to 30 June 2021 S'000
Cash Flows from Financing Activities			
<i>Cash was provided from</i>			
Proceeds from borrowings	2,850	1,300	4,000
	<u>2,850</u>	<u>1,300</u>	<u>4,000</u>
<i>Cash was disbursed to</i>			
Lease payments	64	77	140
Repayment of borrowings	3,700	2,500	5,000
Dividends paid	3,800	4,000	8,200
	<u>7,564</u>	<u>6,577</u>	<u>13,340</u>
Net Cash Inflows / (Outflows) from Financing Activities	(4,714)	(5,277)	(9,340)
Net Increase / (Decrease) in Cash Held	650	1,980	(666)
Cash and cash equivalents at the beginning of the year	<u>1,477</u>	<u>2,143</u>	<u>2,143</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	<u>2,127</u>	<u>4,124</u>	<u>1,477</u>
Composition of Cash			
Cash and cash equivalents	<u>2,127</u>	<u>4,124</u>	<u>1,477</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	<u>2,127</u>	<u>4,124</u>	<u>1,477</u>

CITY FORESTS LIMITED

Notes to the Financial Statements **For the Six Months Ended 31 December 2021**

1. REPORTING ENTITY

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

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

City Forests Limited is a profit orientated entity.

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 2021 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 2021.

The accounting policies applied are consistent with those published in the annual report for the year ended 30 June 2021.

The judgement, estimates and assumptions used to prepare these interim financial statements are consistent with those used at 30 June 2021.

CITY FORESTS LIMITED

Notes to the Financial Statements (cont'd)

For the Six Months Ended 31 December 2021

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

	Unaudited 31 December 2021 S'000	Unaudited 31 December 2020 S'000	Audited 30 June 2021 S'000
Net gain/(loss) for the year	3,997	4,940	36,871
<i>Items Not Involving Cash Flows</i>			
Depreciation and loss on sale	269	579	870
Depletion of forest	7,435	7,520	12,375
Deferred tax	(553)	312	9,433
Depreciation recovered/capital gains	(3)	(360)	(404)
Forestry revaluation	(6,601)	(6,897)	(38,164)
Carbon credits allocated/revaluation	-	-	(5,069)
Write down value of land	-	62	(741)
Lease liability	9	13	21
Other non-cash items			
<i>Impact of Changes in Working Capital Items</i>			
(Increase)/Decrease in accounts receivable	3,234	1,170	(594)
(Increase)/Decrease in inventories	(1,195)	544	673
(Increase)/Decrease in prepayments	6	(116)	1
(Increase)/Decrease in tax	2,114	2,466	889
(Increase)/Decrease in other current assets	-	116	510
Increase/(Decrease) in accounts payable	(2,732)	(1,262)	116
(Increase)/Decrease in other current liabilities	246	15	(143)
Net cash inflows/(outflows) from operating activities	6,226	9,102	16,344

CITY FORESTS LIMITED

Notes to the Financial Statements (cont'd) For the Six Months Ended 31 December 2021

4. FORESTRY ASSETS

	Unaudited 31 December 2021 \$'000	Unaudited 31 December 2020 \$'000	Audited 30 June 2021 \$'000
Balance at the beginning of the year	200,246	169,150	169,150
Add Costs capitalized in establishing forests during the year	2,028	3,047	3,392
Increase in forest from acquisition	-	125	1,915
Forest revaluation	6,601	6,897	38,164
Less Cost of trees harvested at fair value	(7,435)	(7,520)	(12,375)
	201,440	171,699	200,246

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

5. PROPERTY, PLANT AND EQUIPMENT

Opening balance	80,309	69,165	69,165
Plus purchases/(disposals)	1,414	(1,014)	4,150
Plus impairment reversal	-	-	803
Less property intended for sale	-	1,770	0
Less depreciation	(270)	(213)	(554)
Plus/Less revaluations	-	(282)	6,745
	81,453	69,426	80,309
Capital commitments	9,675	945	1,000

All assets are shown at cost with the exception of land which is held at fair value based on independent valuation from Morice Limited (30 June 2021 accounts only).

The Company has a conditional commitment to purchase \$9.675 million of land assets during the second half of the 2022 financial year.

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 2021

7. DERIVATIVE FINANCIAL INSTRUMENTS

	Unaudited 31 December 2021 S'000	Unaudited 31 December 2020 S'000	Audited 30 June 2021 S'000
Assets:			
Forward foreign exchange contracts	498	2,434	1,211
	498	2,434	1,211
Liabilities:			
Forward foreign exchange contracts	-	-	333
Interest rate swaps	13	139	90
	13	139	423

8. TERM LOANS

Dunedin City Treasury loan facility	15,150	15,800	16,000
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9. CARBON CREDITS

Opening balance	49,443	31,970	31,970
Plus credits allocated/purchased		-	5,194
Plus/(less) revaluation	27,850	5,428	12,279
Plus/(less) sales	(3,131)	-	-
Closing balance	74,162	37,398	49,443

Under the accrual principle, the safe carbon level credits have been valued based on the current market prices. Carbon units that are held to be surrendered to meet future harvest liabilities are initially recognised and subsequently measured at nil. Liability (risk) free carbon credits are revalued based on marked to market every 6 months.

10. CONTINGENT 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 31 December 2021 the value of the potential liability in future years is unknown due to the variations in the harvesting schedule, carbon reporting periods and the value of carbon to surrender.

CITY FORESTS LIMITED

STATEMENT OF SERVICE PERFORMANCE

For the Six Month Ended 31 December 2021

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

<u>Performance Targets</u>	<u>Achievement</u>
1a. The Company will achieve a 6% post-tax (or greater) return on shareholders' funds measured on a 3 year rolling average basis	Three year rolling average return on shareholders' funds is 11.6%.
1b. A review of the Company's long term strategic plan will have been completed which meets the objective of a 6% post-tax return on shareholders' funds measured on a 3-year rolling average basis.	Strategy day held on 15 th February 2022. The Company's long term strategic plan was reviewed and noted by the shareholder during the annual budget and statement of intent process. The plan incorporates a return on shareholders' funds of; 3.9% for the first 3 years measured on a forecast 3 year rolling average basis.
1c. Opportunities for expanding the Company's scale will have been investigated including joint ventures. The company will report annually on the hectares of land acquired / divested including joint ventures.	The strategic plan incorporates a forest estate expansion program. New property purchases totalling 314 ha have occurred to date this half year.
2a. No single customer will have received more than 30% of the Company's annual harvest by volume.	Our largest customer Taelim Timber Co (Korea) received 14.1% of the Company's annual harvest volume.
2b. The Company's sales agency will diversify export sales by geographic market destination and by customer which will be reported annually.	Export volume was shipped to: South Korea: 40.2%, 16 customers. China: 59.8%, 8 customers.
2c. The Company will participate in the New Zealand Emissions Trading Scheme (ETS) and may realise financial opportunities from the sale of carbon stored in the Company forests, in compliance with carbon policy.	The Company continues to participate in the ETS and has regularly monitored market Carbon price during the period and considered its Carbon Sales policy at board level. Two NZU sales occurred during the period.
2d. The Company will balance its exposure to domestic and export revenues taking into account market risk and product margin. The percentage annual supply to the domestic market by volume will be tracked.	Domestic log production was 34% by volume. (30.7% last year). Export log sales were 66% by volume.
2e. The Company will incorporate Carbon accounting in the strategic plan in accordance with the New Zealand Emissions Trading Scheme (ETS).	The Company's 10-year strategic plan incorporates Carbon. Future Carbon sequestration and surrender obligations are forecast in accordance with the Company's ETS obligations.
3a. The Company will meet its annual supply commitments to domestic customers taking into account agreed variations.	On an annualised basis all customers received their contracted volumes within plus or minus 10%. A number of domestic supply commitments were varied during the period at

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| 3b | The Company will meet its volume and log quality commitments to export shipping and export customer contracts. | the request of the customer.

All export commitments were met however purchase wood volumes were needed to supplement Company production for some shipments. |
| 4a. | The annual harvest as detailed in the strategic plan will be within +/- 20% of the long term sustainable yield. | The bi-annual harvest from the Company forest estate was 152,238m ³ including billet wood. This is 43.6% of the sustainable annual yield of 349,000m ³ . Forecast harvest levels in the long term strategic plan for the next 3 years are; 360,351m ³ , 359,558m ³ and 349,424m ³ . All are within +/- 20% of the sustainable yield. |
| 4b | The Company will carry out annual forest inventory to measure and verify forest yield. The number of inventory plots measured will be reported. | The Company completed 240 inventory plots during the period. |
| 4c. | A forest surveillance program will be in place as part of the National Surveillance program to assess the forest estate for pests and diseases. | The forest industry wide biosecurity surveillance program was operational during the period. No new incursions were reported in the Company estate. |
| 4d | 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. |
| 4e | The Company will actively participate in regional land use and environmental planning processes. | The Company actively participated with the Otago Regional Council's implementation of the National Environmental Standard for Plantation Forestry. |
| 5a. | The Company will have reviewed the best tree species, tree genetic selection and silvicultural management plan to apply to the annual operational areas. The Company will report annually on the percentage of species and pruned area by forest. | Monitoring of Company pruning strategy was conducted during the period. Percentage Pruned by Forest is:
Silverpeaks; 56%
Flagstaff; 79%
Waipori; 21%
Tokoititi; 69%
<u>Total: 59%</u> |
| 6a. | The Company will participate in Industry Research Consortia (via the Forest levy) to ensure research objectives are in line with Company Strategy and to gain financial leverage to receive research objectives. | The Company has paid the Forest Growers Levy. Two staff are members of committees (through the Forest Owners Association) which are part of the process of allocating levy research funds. The Company Forest Levy contribution is pooled with industry and Government funds achieving considerable financial leverage enabling significant research to be undertaken. |
| 6b | The implementation of research outcomes into operational management plans will be tracked. | Management plans are updated to reflect current management practices which are informed by research outcomes, i.e. target tree stocking rates per hectare to optimise site |

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| <p>7a The Company will maintain supply arrangements with Otago and Southland wood processors provided customers match (or better) alternative supply options.</p> | <p>carrying capacity.</p> <p>Otago and Southland wood processors receive supply volumes in accordance with the annual plan. Pricing is negotiated each quarter. Customers have been given the option to decline or reduce supply if they are unable to match returns from alternative supply options (log export) and this occurred by agreement with some customers for periods during the period.</p> |
| <p>7b Annual supply volumes to major wood processors (Pan Pac, Craigpine, Niagara & Daiken) will be tracked and reported.</p> | <p>Otago & Southland wood processors were supplied the following volumes during the period:</p> <p style="margin-left: 40px;">Pan Pac: 4,481m³
 Hollows: 5,548m³
 Gorton's: 4,582m³
 Great South: 2,521m³
 Timber Direct: 2,555m³
 Stuart Timber: 457m³
 Otago Lumber: 4,309m³
 Daiken: 21,060m³
 Bioenergy: 11,137m³</p> |
| <p>7c. The volume of wood supplied for Bioenergy uses will be tracked and reported.</p> | |
| <p>8a. Lost time accident rates for staff and forest contractors will be minimised and not more than 15 lost time accidents per 1,000,000 hours worked.</p> | <p>12 month rolling lost time accident rate for staff and forest contractors was 11.9 lost time injuries per 1,000,000 hours.</p> |
| <p>8b. The Company will undertake drug and alcohol testing of staff and the contract workforce. The number of random tests and percentage of positive tests will be reported.</p> | <p>50 tests were conducted during the period. Nil positive random tests were recorded.</p> |
| <p>8c. Forest Stewardship Council Certification of the Forest Estate will be maintained.</p> | <p>Forest Stewardship Council Certification was maintained following audit in 2021.</p> |
| <p>8d. A current forest management plan will be in place (as required by FSC standards) which identifies social and environmental, as well as economic outputs.</p> | <p>The Company has a set of comprehensive forest management plans that have been externally audited as part of the Company maintaining FSC certification.</p> |
| <p>8e. The Company will work with partners (Doc, University of Otago etc) to maintain and enhance are threatened and endangered (RT&E) species on and around the Company estate. Sponsorship amounts for these activities will be reported annually.</p> | <p>Sponsorship of \$30,000 was awarded to Orokonui Ecosanctuary, \$10,000 to the Yellow Eyed Penguin Trust and \$10,000 to Dunedin Wildlife Hospital to contribute towards conservation of rare threatened and endangered (RT&E) species on and around the Company estate.</p> |
| <p>9a. The Company will have in place an environmental management system which will include procedures for sustainability monitoring. Results of water sampling and</p> | <p>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.</p> |

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	reserve area environmental assessments will be publicly available on the Company's website.	soil disturbance and reserve biodiversity monitoring.
10a	Company and Contract employees will have a training plan in place. The company will report on the number of National Certificates achieved by its workforce each year.	Company Staff, Contractors and their employees achieved 15 National Certificates during the period.
10b.	The Company will engage with its contractors to participate in Modern Apprenticeship programs. The number of apprentices working in Company operations will be reported each year.	At 31 December 2021 one modern apprentice employed in Company operations.
10c.	There will be "nil" instances of non-compliance with the Company's EEO policy.	There were no instances of non-compliance with the Company's EEO policy.
11a.	The Company's forest management plans will have a section allocated to Recreation and Educational use of the forests.	The Company's forest management plans have sections allocated to recreation and education.
11b.	The Company will maintain a Forest Access Permit system, track and report on recreational use statistics.	Recreation use is monitored through forest access permit issuance. 141 forest access permits were issued during the year.
11c.	The Company will track and report on the distance of public walking and mountain bike tracks in the Company's forests.	The Company has 32.3 km of walking tracks and 24.7 km of mountain bike tracks in its forests.
12a	A continued and measured expansion of the forest estate will be part of Company Strategy, actioned and tracked annually.	Company has purchased 314ha of land during the period.
12b	Consult with the shareholder in a timely manner on DCHL Group strategic or operational matters which could compromise the Council's community outcomes.	No significant issues arose that would compromise Council community outcomes, however communication channels were maintained with the shareholder such that the shareholder is well informed of Company activities.
12c	Report to the shareholder within 24 hours of the Board becoming aware of any substantive matter, including any matter likely to generate media coverage.	A small number of media interactions occurred throughout the period and the shareholder and board were communicated to within 24 hours informing them of the matter.
12d	Living wage: The Company will disclose in its Annual Report the proportion of its workforce receiving the living wage (as calculated by the New Zealand Family Centre Social Policy Unit).	All employee remuneration is greater than the living wage unless under training.
12e	Contribute to the Councils Carbon Neutrality Initiatives. Establish systems for measuring and publicly reporting carbon emissions by end of FY 2021, in a cost effective manner, with a view to then identifying and setting emissions reductions targets.	Carbon reporting has been completed and will be reported in the 2022 annual report in accordance with DCHL group standards.

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Forecasts (2021 – 2022 Financial Year)		Actual (half year to 31 December 2021)	
	\$'000		\$'000
Profit before income tax	16,053	Profit before income tax	5,560
Profit after income tax	11,552	Profit after income tax	3,997
Shareholders' funds to total assets	74.0%	Shareholders' funds to total assets	73.4%
Dividend Distribution	4,200	Dividend Distribution	3,800
Operating cashflow	9,469	Operating cashflow	6,226
Capex	3,200	Capex	2,489
Term debt	18,000	Term debt	15,150