

CITY FORESTS LIMITED

CITY FORESTS LIMITED

**HALF-YEAR REPORT
FOR THE SIX MONTHS
ENDED
31 DECEMBER 2017**

CITY FORESTS LIMITED

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CITY FORESTS LIMITED

DIRECTORY

As at 31 December 2017

DIRECTORS

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

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

T J Mephram – 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

DIRECTORS' REPORT

For the Six Months Ended 31 December 2017

The Directors of City Forests Limited present their report on the activities of the Company for the period ended 31 December 2017.

Dividends

The Directors paid an interim dividend of \$2,000,000 in December 2017.

Review of Operations

This review of operations and the accompanying financial reports cover the first six months of the 2017 / 2018 financial year.

The Company experienced profitable trading conditions and has delivered an above budget result for the first six months of the 2017 / 2018 financial year. A record December interim dividend of \$2m (previous \$1.5m, see note page 12) has been paid to the shareholder. No serious harm injuries were recorded in Company operations during the period.

Forest production for the period was on budget as the Company progresses towards harvesting the sustainable cut for the year. The Company traded additional volumes from third party suppliers to ensure customer commitments were met.

There were two transactions of Carbon Credits (NZU's) under the New Zealand Emissions Trading Scheme during the period one of which is future dated to May 2018. No changes in the value of the Forest Estate were recorded during the period.

The Company's log markets have experienced a continued period of strong demand and increased pricing during the period. The domestic log market has been busy with sawmill demand fuelled by strong domestic building activity. Log exports have been regularly delivering 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 increased New Zealand Dollar returns over the first six months of the financial year.

The Company produced a pleasing \$6.872 million profit before tax for the period (\$3.524 million for the equivalent period last year). Cash flow performance was strong and the Company has continued to reduce debt.

During the period the Company has been successful in negotiating the purchase of a new forest area. A private farm at Henley is under unconditional contract for forest establishment. This will increase both wood and carbon production from the forest estate. Further acquisition opportunities are under investigation.

The Company has finalised a sponsorship agreement with Otago Natural History Trust (Orokanui Eco Sanctuary), the Yellow Eyed Penguin Trust and Otago Peninsular Biodiversity Group during the period.

CITY FORESTS LIMITED

DIRECTORS' REPORT

For the Six Months Ended 31 December 2017

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.

The outlook for the second six months is for a continuation of strong market conditions in both the domestic and export log markets. The purchase of the new forest area 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 strong second half financial performance.

Events Subsequent to Balance Date

As noted above the Company has a purchase contract for an additional forestry block which will transact on 31st March 2018.

Mr Tony Alison has resigned as a Director effective 31 December 2017 and has been replaced by Mr Chris Hopkins effective 1 January 2018.

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 2017 and authorises them for issue on Tuesday 13 February 2018.

On behalf of the Board of Directors:


J F Gallaher
Chairman

13/2/18
Date


M C Horne
Director

13/2/18
Date

CITY FORESTS LIMITED

Trend Statement

	6 Months Ended 31 Dec 17 \$'000	Year Ended 30 Jun 17 \$'000	Year Ended 30 Jun 16 \$'000	Year Ended 30 Jun 15 \$'000	Year Ended 30 Jun 14 \$'000
<u>FINANCIAL PERFORMANCE</u>					
Domestic Revenue	6,766	12,756	12,335	9,412	12,687
Export Revenue	22,632	26,465	33,861	26,751	22,108
Other Revenue	1,010	869	656	2,228	2,385
Total Revenue	30,408	40,090	46,852	38,391	37,180
Percentage Increase (Annualised)	51.7%	(14.4%)	22.0%	3.2%	5.5%
Inventory Movement	(575)	869	(224)	(170)	(308)
Total Expenses	20,420	28,857	35,341	31,072	28,216
Percentage Increase (Annualised)	41.5%	(18.3%)	13.7%	(10.1%)	(4.4%)
Operating Surplus	9,413	12,102	11,287	7,149	8,656
New Zealand Carbon Credits	19	6,182	1,462	-	2,694
Gain in Fair Value of Forestry Asset	-	9,629	9,524	2,515	1,571
Write down value of land	-	(389)	-	-	-
Impairment Charges	-	-	-	80	(1,500)
Surplus after Non-Operating Items and Before Taxation	9,432	27,524	22,273	9,744	11,421
Income Tax	2,560	7,420	6,252	2,702	3,130
Total Surplus after Taxation	6,872	20,104	16,021	7,042	8,291
<u>SHAREHOLDERS' FUNDS</u>					
Shareholders Funds	138,926	130,873	115,670	96,649	95,932
Operating Cashflow	8,417	12,200	11,787	8,734	8,278
Dividends Provided – Normal	2,000	4,500	4,500	4,500	2,600
– Special	-	1,500	2,000	500	2,500
Value of Forest	136,371	136,333	123,802	113,629	111,093
Surplus after tax to shareholders funds	4.94%	15.36%	13.85%	7.29%	8.64%
Proprietorship Ratio	68.99%	66.00%	65.12%	62.52%	63.34%
Net Forest Revaluation	-	9,629	9,524	1,811	1,131
Net Land Revaluation	(71)	(148)	-	(22)	(102)
<u>FOREST STATISTICS</u>					
Forest harvested (m ³)	150,339	277,201	306,452	299,377	284,373
Volume traded (m ³) (Outside Jobs)	29,986	64,455	71,364	18,530	2,583
Forest planted (ha)	371	579	487	605	602
Total forest (ha)	16,795	16,795	16,469	16,315	16,326
Forest purchased (ha)	-	347	156	-	204

CITY FORESTS LIMITED

Statement of Comprehensive Income

For the Six Months Ended 31 December 2017

	Note	Unaudited Six months to 31 December 2017 \$'000	Unaudited Six months to 31 December 2016 \$'000	Audited Year to 30 June 2017 \$'000
Sales revenue		29,397	15,777	39,710
Gain on sale of property, plant and equipment		481	32	38
Other revenue		281	79	309
New Zealand carbon credits		19	-	6,182
Financial income		249	197	33
Gain (loss) in fair value of forestry asset		-	-	9,629
Total revenue		30,427	16,085	55,901
Inventory movement		(575)	417	869
Less expenses				
Audit fees		18	18	35
Contractors		8,887	5,848	13,896
Cost of bush applied		1,318	1,161	2,394
Depreciation and amortisation expense		153	188	375
Donations		8	1	12
Directors fees		69	69	141
Employee expenses		679	725	1,483
Financial expenses		355	428	853
Rental expense on operating leases		36	30	53
Research expenditure		88	74	145
Shipping costs		4,227	1,607	4,785
Other expenses		4,582	1,460	5,074
Total expenses		20,420	11,609	29,246
Profit before tax		9,432	4,893	27,524
Income tax expense		2,560	1,369	7,420
Net profit/(loss) after tax		6,872	3,524	20,104
Other comprehensive income				
Gains/(loss) on foreign exchange hedges taken to equity		(186)	323	1,304
Tax effect of foreign exchange hedges taken to equity		52	(90)	(365)
Increase/(decrease) in land revaluation		(71)	(13)	241
Carbon credits revaluation above initial recognition taken to equity		4,514	(821)	(586)
Tax effect of carbon credits taken to equity		(1,128)	179	116
Other comprehensive income for the period		3,181	(422)	710
Total Comprehensive Income for the period		10,053	3,102	20,814

CITY FORESTS LIMITED

Statement of Changes in Equity For the Six Months Ended 31 December 2017

	Share capital	Hedge reserve	Forest revaluation reserve	Carbon credit reserve	Land revaluation reserve	Retained earnings	Total equity
Unaudited	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Equity as at 1 July 2017							
Profit after income tax	25,691	(16)	62,732	10,820	15,088	16,558	130,873
Other comprehensive income						6,872	6,872
for the period	-	(134)	-	1,771	(71)	1,615	3,181
Dividend distributions	-	-	-	-	-	(2,000)	(2,000)
Equity as at 31 December 2017	25,691	(150)	62,732	12,591	15,017	23,045	138,926
Unaudited							
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)
Equity as at 31 December 2016	25,691	(722)	55,799	10,648	14,834	11,411	117,661
Audited							
Equity as at 1 July 2016	25,691	(955)	55,799	11,290	14,847	9,387	116,059
Profit after income tax						20,104	20,104
Total comprehensive income for							
the period	-	939	-	(470)	241	-	710
Revaluation of forestry assets	-	-	6,933	-	-	(6,933)	-
Dividend distributions	-	-	-	-	-	(6,000)	(6,000)
Equity as at 30 June 2016	25,691	(16)	62,732	10,820	15,088	16,558	130,873

CITY FORESTS LIMITED

Balance Sheet

At 31 December 2017

	Note	Unaudited 31 December 2017 \$'000	Unaudited 31 December 2016 \$'000	Audited 30 June 2017 \$'000
Equity				
Share capital		25,691	25,691	25,691
Forest reserve		62,732	55,799	62,732
Land revaluation reserve		15,017	14,834	15,088
Hedging reserve		(150)	(722)	(16)
Carbon credit reserve		12,591	10,648	10,820
Retained earnings		23,045	11,411	16,558
Total Equity		<u>138,926</u>	<u>117,661</u>	<u>130,873</u>
Current Liabilities				
Trade and other payables		2,244	1,491	3,170
Other current liabilities		147	123	445
Employee provisions		131	133	125
Derivative financial instruments	7	26	399	40
Current portion of term borrowings		1,686	1,686	1,686
Provision for taxation		1,994	3,010	1,803
Subvention payable		-	-	548
Total current liabilities		<u>6,228</u>	<u>6,842</u>	<u>7,817</u>
Non-Current Liabilities				
Derivative financial instruments	7	427	672	525
Term borrowings	8	13,805	14,689	18,842
Other liabilities		320	320	320
Deferred tax liability		41,666	34,940	39,890
Total non-current liabilities		<u>56,218</u>	<u>50,621</u>	<u>59,577</u>
Total Liabilities		<u>62,446</u>	<u>57,463</u>	<u>67,394</u>
TOTAL EQUITY PLUS LIABILITIES		<u>201,372</u>	<u>175,124</u>	<u>198,267</u>

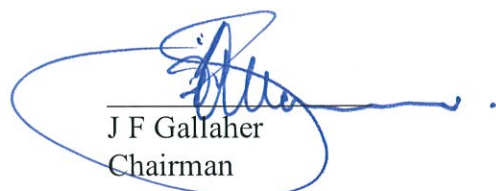
CITY FORESTS LIMITED

Balance Sheet (cont'd)


At 31 December 2017

		Unaudited 31 December 2017 \$'000	Unaudited 31 December 2016 \$'000	Audited 30 June 2017 \$'000
Current Assets				
Cash and cash equivalents		1,437	1,270	810
Trade and other receivables		4,382	969	2,909
Derivative financial instruments	7	179	16	426
Inventories		487	610	1,062
Prepayments		140	477	426
Other current asset		618	175	244
Property intended for sale		-	-	1,122
Total current assets		7,243	3,517	6,999
Non-Current Assets				
Derivative financial instruments	7	66	53	118
Property, plant and equipment	5	31,530	31,507	31,383
Forestry assets	4	136,371	123,551	136,333
Investments		1	1	1
Intangibles – computer software		16	28	20
Intangibles – New Zealand carbon credits		26,145	16,467	23,413
Total non-current assets		194,129	171,607	191,268
TOTAL ASSETS		201,372	175,124	198,267

For and on behalf of the Board of Directors


J F Gallaher
Chairman

13th February 2018


M C Horne
Director

CITY FORESTS LIMITED

Statement of Cash Flows

For the Six Months Ended 31 December 2017

	Note	Unaudited Six months to 31 December 2017 \$'000	Unaudited Six months to 31 December 2016 \$'000	Audited Year to 30 June 2017 \$'000
Cash Flows from Operating Activities				
<i>Cash was provided from</i>				
Receipts from customers		28,859	19,465	41,313
Carbon credits sold		1,800	-	-
Interest received		4	6	25
Effect of Exchange Rate Changes		245	192	-
		<u>30,908</u>	<u>19,663</u>	<u>41,338</u>
<i>Cash was disbursed to</i>				
Payments to suppliers and employees		19,787	12,140	24,649
Interest paid		408	424	811
Income tax		1,668	475	3,121
Subvention		548	-	-
Carbon credits purchased		-	-	548
Effect of exchange rate changes		-	-	9
		<u>22,411</u>	<u>13,039</u>	<u>29,138</u>
Net Cash Inflows / (Outflows) from Operating Activities	3	8,497	6,624	12,200
Cash Flows from Investing Activities				
<i>Cash was provided from</i>				
Sale of property, plant and equipment		1,273	35	105
		<u>1,273</u>	<u>35</u>	<u>105</u>
<i>Cash was disbursed to</i>				
Purchase of property, plant and equipment		750	138	1,511
Purchase of Forest Assets – Cost of bush		1,200	710	4,950
		<u>1,950</u>	<u>848</u>	<u>6,461</u>
Net Cash Inflows / (Outflows) from Investing Activities		(677)	(813)	(6,356)

CITY FORESTS LIMITED

Statement of Cash Flows (cont'd)

For the Six Months Ended 31 December 2017

	Unaudited Six months to 31 December 2017 \$'000	Unaudited Six months to 31 December 2016 \$'000	Audited Year to 30 June 2017 \$'000
Cash Flows from Financing Activities			
<i>Cash was provided from</i>			
Proceeds from borrowings	1,700	1,060	6,410
	<u>1,700</u>	<u>1,060</u>	<u>6,410</u>
<i>Cash was disbursed to</i>			
Repayment of borrowings	6,893	3,403	4,746
Dividends paid	2,000	2,500*	7,000
	<u>8,893</u>	<u>5,903</u>	<u>11,746</u>
Net Cash Inflows / (Outflows) from Financing Activities	(7,193)	(4,843)	(5,336)
Net Increase / (Decrease) in Cash Held	627	968	508
Cash and short term deposits at the beginning of the year	<u>810</u>	<u>302</u>	<u>302</u>
CASH AND SHORT TERM DEPOSITS AT THE END OF THE PERIOD	<u>1,437</u>	<u>1,270</u>	<u>810</u>
Composition of Cash			
Cash and short term deposits	<u>1,437</u>	<u>1,270</u>	<u>810</u>
CASH AND SHORT TERM DEPOSITS AT THE END OF THE PERIOD	<u>1,437</u>	<u>1,270</u>	<u>810</u>

* \$2.5m includes \$1.0m provision for special dividend declared June 2016 and paid July 2016 and Interim Dividend of \$1.5m paid Dec 2016.

CITY FORESTS LIMITED

Notes to the Financial Statements

For the Six Months Ended 31 December 2017

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 2017 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 2017.

The accounting policies applied are consistent with those published in the annual report for the year ended 30 June 2017.

The judgement, estimates and assumptions used to prepare these interim financial statements are consistent with those used at 30 June 2017.

CITY FORESTS LIMITED

Notes to the Financial Statements (cont'd)

For the Six Months Ended 31 December 2017

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

	Unaudited 31 December 2017 \$'000	Unaudited 31 December 2016 \$'000	Audited 30 June 2017 \$'000
Net gain/(loss) for the year	6,872	3,524	20,104
<i>Items Not Involving Cash Flows</i>			
Depreciation and loss on sale	333	190	381
Depletion of forest	1,318	1,160	2,394
Deferred tax	701	159	4,770
Depreciation recovered/capital gains	(481)	(32)	(38)
Forestry revaluation	-	-	(9,629)
Carbon credits allocated/revaluation	(19)	-	(6,164)
Write down value of land	-	-	389
Subvention accrual	-	-	548
Other non-cash items			
<i>Impact of Changes in Working Capital Items</i>			
(Increase)/Decrease in accounts receivable	(1,391)	3,193	1,252
(Increase)/Decrease in inventories	575	(417)	(869)
(Increase)/Decrease in prepayments	286	(203)	(151)
(Increase)/Decrease in tax refund due	190	736	(471)
Increase/(Decrease) in accounts payable	(1,245)	(1,776)	218
Increase/(Decrease) in other current liabilities	(541)	12	(534)
(Increase)/Decrease in current assets	1,900	78	-
Net cash inflows/(outflows) from operating activities	8,497	6,624	12,200

CITY FORESTS LIMITED

Notes to the Financial Statements (cont'd)

For the Six Months Ended 31 December 2017

4. FORESTRY ASSETS

	Unaudited 31 December 2017 \$'000	Unaudited 31 December 2016 \$'000	Audited 30 June 2016 \$'007
Balance at the beginning of the year	136,333	123,802	123,802
Add Costs capitalized in establishing forests during the year	1,355	910	2,083
Increase in forest from acquisition	-	-	3,212
Forest revaluation	-	-	9,629
Less Cost of trees harvested	(1,317)	(1,161)	(2,393)
	136,371	123,551	136,333

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

5. PROPERTY, PLANT AND EQUIPMENT

Opening balance	31,383	30,566	31,278
Plus purchases	295	137	1,804
Less disposals	(1,045)	(4)	(73)
Less property intended for sale	1,121	-	(1,121)
Less depreciation	(153)	(179)	(357)
Less revaluations	(71)	(13)	(148)
	31,530	31,507	31,383
Capital commitments	4,275	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 \$4.275 million of forest and land assets in the first quarter of 2018.

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 2017

7. DERIVATIVE FINANCIAL INSTRUMENTS

	Unaudited 31 December 2017 \$'000	Unaudited 31 December 2016 \$'000	Audited 30 June 2017 \$'000
Assets:			
Forward foreign exchange contracts	245	69	544
Interest rate swaps	-	-	-
	245	69	544
Liabilities:			
Forward foreign exchange contracts	26	592	40
Interest rate swaps	427	479	525
	453	1,071	565

8. TERM LOANS

Dunedin City Treasury loan facility	11,000	10,500	15,350
Ministry of Primary Industries	2,805	4,189	3,492
	13,805	14,689	18,842

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

9. CARBON CREDITS

Opening balance	23,413	17,288	17,288
Plus credits allocated	-	-	6,182
Plus credits purchased	-	-	548
Plus/(less) revaluation	4,532	(821)	(605)
Plus/(less) sales	(1,800)	-	-
Closing balance	26,145	16,467	23,413

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 2017, (prior periods \$nil).