

CITY FORESTS LIMITED

CITY FORESTS LIMITED

**HALF-YEAR REPORT
FOR THE SIX MONTHS
ENDED
31 DECEMBER 2022**

CITY FORESTS LIMITED

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CITY FORESTS LIMITED

DIRECTORY

As at 31 December 2022

DIRECTORS

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) (Appointed Chairman 1.9.22)
K A Posa – BMS(Hons), C.A., G.A.I.C.D., CM.Inst.D. (Appointed 1.10.19)
K E Bromfield – PhD, CM Inst.D. (Appointed 1.9.22)
P R Melhopt – M.Inst.D., B.Com.(Forestry) (Appointed 1.2.22)
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, Retired 31.10.22)
T J Mephram – B.Com., C.A., C.F.Inst.D. (Appointed 01.12.13, Retired 31.10.22)

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 2022

The Directors of City Forests Limited present their report on the activities of the Company for the period ended 31 December 2022.

Dividends

The Company paid a budgeted interim dividend of \$1,000,000 which was paid to comply with the Company dividend policy based on operational cashflows.

Return of Capital

The Company made a capital return to the shareholders of \$10,000,000 in December 2022.

Review of Operations

This review of operations and the accompanying financial reports cover the first six months of the 2022 / 2023 financial year.

The Company experienced mildly profitable trading conditions and delivered a \$3.193m profit after tax for the first six months of the 2022 / 2023 financial year. This is less than that recorded for the same period of the previous year (\$3.997m) and reflects the weaker log export trading conditions encountered.

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 marginally above budget. The Company traded limited volumes of logs from third party suppliers during the period to ensure customer commitments were met.

The asset value of NZU's held was increased on 31 December 2022 to reflect current market value. This led to a slight increase in NZU asset value. No revaluation of the forest estate was recorded during the period (see note 2).

The Company's export log markets, particularly China, have experienced weaker demand, partly due to China's ongoing Covid control measures and weak demand from the Chinese construction industry. The longer term nature of domestic log pricing means that the domestic log prices have held up longer than export pricing, however the Company's log supply to domestic mills is limited by processing capacity and customer demand. The last six months has seen a gradual reduction in shipping rates.

CITY FORESTS LIMITED

DIRECTORS' REPORT (cont'd)

For the Six Months Ended 31 December 2022

During the period, the Company purchased land at Quoin Point Road (179 ha's) and small areas at Moneymore and Fletcher Road.

Further opportunities to expand the Company estate in accordance with Company Strategy are under investigation.

The Company has continued sponsorship agreements with Otago Natural History Trust (Orokonui Ecosanctuary) \$30,000, the Yellow Eyed Penguin Trust \$10,000 and the Wildlife Hospital Trust \$10,000. 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. The Company also had wildling tree control work carried out of \$45,000 during the period.

Events Subsequent to Balance Date

No events have occurred subsequent to balance date.

The Company's export market looks to be improving. The sentiment amongst Chinese buyers is positive post Lunar New Year and shipping rates remain lower than recent times, which are creating strong \$NZ returns for the start of 2023. Challenges and issues remaining within the Chinese construction sector mean we remain cautiously optimistic. The degree that the North Island export log supply chains have been disrupted by recent weather events remains to be seen, but it is highly likely it increases buyers concerns about availability of cargos leading to more demand. Demand from domestic customers remains strong.

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 2022 and authorises them for issue on Thursday 23rd February 2023.

CITY FORESTS LIMITED

DIRECTORS' REPORT (cont'd)

For the Six Months Ended 31 December 2022

Change of Directors

During the first half of the financial period, Mr John Gallaher retired as Chairman as of 31st October as did Mr Tim Mephram as Director, both attended the Board meeting scheduled for 1st November 2022 as this was effectively the October Board meeting. Mr Scott Mason was appointed Chairman as of 1st September.

Mr Gallaher and Mr Mephram made a significant contribution to the Company during their tenure as Chairman and Director respectively.

Ms Kate Bromfield was appointed Director as of 1st September 2022.

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.

On behalf of the Board of Directors:



S A Mason
Chairman



K A Posa
Director

23 February 2023

Date

23/2/23

Date

CITY FORESTS LIMITED

Trend Statement

	6 Months Ended 31 Dec 22 \$'000	6 Months Ended 31 Dec 21 \$'000	Year Ended 30 Jun 22 \$'000	Year Ended 30 Jun 21 \$'000	Year Ended 30 Jun 20 \$'000
<u>FINANCIAL PERFORMANCE</u>					
Domestic Revenue	4,545	4,770	8,895	12,001	9,553
Export Revenue	27,730	24,419	55,199	51,660	37,085
Other Revenue	204	961	1,634	1,433	576
Total Revenue	32,479	30,150	65,728	65,094	47,214
Percentage Increase (Annualised)	7.7%	0.01%	.97%	37.8%	(20.0%)
Inventory Movement	380	1,147	56	(916)	(43)
Total Expenses	34,376	32,338	67,319	57,352	45,926
Percentage Increase (Annualised)	6.3%	(0.11%)	17.4%	26.5%	(5.2%)
Operating Surplus	(1,517)	(1,041)	(1,535)	6,888	1,245
Gain in Fair Value of Forestry Asset	5,972	6,601	9,474	38,164	11,628
Write down value of land	-	-	453	803	(69)
Surplus after Non-Operating Items and Before Taxation	4,455	5,560	8,392	45,793	12,804
Income Tax	1,262	1,563	2,232	12,572	3,626
Total Surplus after Taxation	3,193	3,997	6,160	33,221	9,178
<u>SHAREHOLDERS' FUNDS</u>					
Shareholders Funds	275,836	266,928	282,203	246,898	201,816
Operating Cashflow	5,436	6,226	7,258	16,344	5,659
Dividends Provided – Normal	1,000	2,000	5,000	4,200	4,500
– Special	-	1,800	1,800	4,000	-
Value of Forest	202,896	201,440	201,362	200,246	169,150
Surplus after tax to shareholders funds	1.16%	1.50%	2.18%	13.45%	4.55%
Proprietorship Ratio	69.9%	73.40%	72.56%	73.06%	72.12%
Net Forest Revaluation	-	-	6,822	27,478	8,374
Net Land Revaluation	-	-	10,156	7,327	2,796
<u>FOREST STATISTICS</u>					
Forest harvested (m ³)	182,085	152,238	343,326	388,664	310,100
Volume traded (m ³) (Outside Jobs)	5,183	17,127	26,358	13,597	27,093
Forest planted (ha)	655	573	1,054	1,030	970
Total forest (ha)	20,188	19,362	19,919	19,324	19,050
Forest crop purchased (ha)	-	-	130	87	-

CITY FORESTS LIMITED

Statement of Comprehensive Income

For the Six Months Ended 31 December 2022

	Note	Unaudited Six months to 31 December 2022 \$'000	Unaudited Six months to 31 December 2021 \$'000	Audited Year to 30 June 2022 \$'000
Sales revenue		32,275	29,189	65,086
Gain on sale of property, plant and equipment		-	3	
Other revenue		185	239	
Financial income		(853)	719	1,095
Gain (loss) in fair value of forestry asset		5,973	6,601	9,475
Total revenue		37,580	36,751	75,656
Inventory movement		380	1,250	56
Less expenses				
Audit fees		41	26	
Contractors		10,456	9,867	16,864
Cost of bush applied		6,651	7,434	
Depreciation and amortisation expense		242	270	568
Donations		1	-	
Directors fees		111	93	200
Employee expenses		1,216	912	2,238
Financial expenses		417	229	453
Research expenditure		19	20	
Shipping costs		12,732	10,463	
Other expenses		1,619	3,127	46,997
Total expenses		33,505	32,441	67,320
Profit before tax		4,455	5,560	8,392
Income tax expense		1,262	1,563	2,232
Net profit/(loss) after tax		3,193	3,997	6,160
Other comprehensive income				
Gains/(loss) on cash flow hedges taken to equity		1,513	(304)	(4,368)
Tax effect of cash flow hedges taken to equity		(424)	85	1,223
Increase/(decrease) in land revaluation		-	-	10,156
Reversal of revaluation gain on disposed land		-	-	-
Tax effect of land revaluation taken to equity		-	-	-
Carbon credits revaluation above initial recognition taken to equity		488	27,850	40,167
Tax effect of carbon credits taken to equity		(137)	(7,798)	(11,233)
Other comprehensive income for the period		1,440	19,833	35,945
Total Comprehensive Income for the period		4,633	23,830	42,105

CITY FORESTS LIMITED

Statement of Changes in Equity For the Six Months Ended 31 December 2022

	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 2022	25,691	(2,577)	102,520	56,034	49,840	50,695	282,203
Profit after income tax						3,193	3,193
Other comprehensive income for the period		1,089		351			1,440
Dividend distributions						(1,000)	(1,000)
Return of capital	(10,000)						(10,000)
Equity as at 31 December 2022	15,691	(1,488)	102,520	56,385	49,840	52,888	275,836
Unaudited							
Equity as at 1 July 2021	25,691	568	103,921	35,116	39,683	41,919	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	53,511	39,683	43,773	266,928
Audited							
Equity as at 1 July 2021	25,691	568	103,921	35,116	39,683	41,919	246,898
Profit after income tax	-	-	-	-	-	6,160	6,160
Other comprehensive income for the period	-	(3,144)	-	28,933	10,156	-	35,945
Transfer of carbon reserve	-	-	-	(8,015)	-	8,015	-
Revaluation of forestry assets	-	-	(1,401)	-	-	1,401	-
Dividend distributions	-	-	-	-	-	(6,800)	(6,800)
Equity as at 30 June 2022	25,691	(2,577)	102,520	56,034	49,840	50,695	282,203

CITY FORESTS LIMITED

Balance Sheet

As at 31 December 2022

	Note	Unaudited 31 December 2022 \$'000	Unaudited 31 December 2021 \$'000	Audited 30 June 2022 \$'000
Equity				
Share capital		15,691	25,691	25,691
Forest reserve		102,520	103,921	102,520
Land revaluation reserve		49,840	39,683	49,840
Hedging reserve		(1,488)	349	(2,577)
Carbon credit reserve		56,385	35,257	56,034
Retained earnings		52,888	62,027	50,695
Total Equity		275,836	266,928	282,203
Current Liabilities				
Trade and other payables		2,713	1,843	4,391
Other current liabilities		87	73	295
Employee provisions		283	244	238
Derivative financial instruments	7	822	-	1,679
Provision for taxation		6,313	6,674	5,413
Lease liability		139	108	142
Total current liabilities		10,357	8,942	12,158
Non-Current Liabilities				
Derivative financial instruments	7	1,245	13	1,901
Term borrowings	8	34,250	15,150	20,600
Lease liability		264	340	330
Deferred tax liability		72,788	72,290	71,866
Total non-current liabilities		108,547	87,793	94,697
Total Liabilities		118,904	96,735	106,855
TOTAL EQUITY PLUS LIABILITIES		394,740	363,663	389,058

CITY FORESTS LIMITED

Balance Sheet (cont'd)


At 31 December 2022

		Unaudited 31 December 2022 \$'000	Unaudited 31 December 2021 \$'000	Audited 30 June 2022 \$'000
Current Assets				
Cash and cash equivalents		3,214	2,127	1,373
Trade and other receivables		1,604	693	3,530
Derivative financial instruments	7	-	143	-
Inventories		996	1,873	1,144
Prepayments		372	130	236
GST refund		318	177	889
Deposit on property purchase		-	1,075	275
Total current assets		6,504	6,218	7,447
Non-Current Assets				
Derivative financial instruments	7	-	355	-
Property, plant and equipment	5	106,024	81,454	101,416
Forestry assets	4	202,896	201,440	201,362
Investments		2	2	1
Intangibles – computer software		17	32	23
Intangibles – New Zealand carbon credits		79,297	74,162	78,809
Total non-current assets		388,236	357,445	381,611
TOTAL ASSETS		394,740	363,663	389,058

For and on behalf of the Board of Directors



S A Mason
Chairman



K A Posa
Director

23rd February 2023

CITY FORESTS LIMITED

Statement of Cash Flows

For the Six Months Ended 31 December 2022

	Note	Unaudited Six months to 31 December 2022 \$'000	Unaudited Six months to 31 December 2021 \$'000	Audited Year to 30 June 2022 \$'000
Cash Flows from Operating Activities				
<i>Cash was provided from</i>				
Receipts from customers		25,364	29,219	64,518
Interest received		19	-	-
GST refunds		2,561	1,729	-
Effect of exchange rate changes		182	719	1,095
		<u>28,126</u>	<u>31,667</u>	<u>65,613</u>
<i>Cash was disbursed to</i>				
Payments to suppliers and employees		22,304	25,234	53,255
Interest paid		386	207	447
Income tax/subvention		-	-	4,653
Effect of exchange rate changes		-	-	-
		<u>22,690</u>	<u>25,441</u>	<u>58,355</u>
Net Cash Inflows / (Outflows) from Operating Activities	3	5,436	6,226	7,258
Cash Flows from Investing Activities				
<i>Cash was provided from</i>				
Carbon credits sold		-	3,131	11,131
Sale of property, plant and equipment		<u>1</u>	<u>51</u>	<u>10</u>
		1	3,182	11,141
<i>Cash was disbursed to</i>				
Purchase of property, plant and equipment		4,720	2,016	11,273
Purchase of Forest Assets – Cost of bush		1,526	2,028	4,537
Purchase of Carbon Credits		<u>-</u>	<u>-</u>	<u>329</u>
		<u>6,246</u>	<u>4,044</u>	<u>16,139</u>
Net Cash Inflows / (Outflows) from Investing Activities		(6,245)	(862)	(4,998)

CITY FORESTS LIMITED

Statement of Cash Flows (cont'd)

For the Six Months Ended 31 December 2022

	Unaudited Six months to 31 December 2022 \$'000	Unaudited Six months to 31 December 2021 \$'000	Audited Year to 30 June 2022 \$'000
Cash Flows from Financing Activities			
<i>Cash was provided from</i>			
Proceeds from borrowings	14,050	2,850	18,300
	<u>14,050</u>	<u>2,850</u>	<u>18,300</u>
<i>Cash was disbursed to</i>			
Lease payments		64	164
Repayment of borrowings	400	3,700	13,700
Return of capital	10,000		
Dividends paid	1,000	3,800	6,800
	<u>11,400</u>	<u>7,564</u>	<u>20,664</u>
Net Cash Inflows / (Outflows) from Financing Activities	2,650	(4,714)	(2,364)
Net Increase / (Decrease) in Cash Held	1,841	650	(104)
Cash and cash equivalents at the beginning of the year	<u>1,373</u>	<u>1,477</u>	<u>1,477</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	<u>3,214</u>	<u>2,127</u>	<u>1,373</u>
Composition of Cash			
Cash and cash equivalents	<u>3,214</u>	<u>2,127</u>	<u>1,373</u>

CITY FORESTS LIMITED

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

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 2022 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 2022.

The accounting policies applied are consistent with those published in the annual report for the year ended 30 June 2022.

The judgement, estimates and assumptions used to prepare these interim financial statements are consistent with those used at 30 June 2022.

CITY FORESTS LIMITED

Notes to the Financial Statements (cont'd)

For the Six Months Ended 31 December 2022

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

	Unaudited 31 December 2022 \$'000	Unaudited 31 December 2021 \$'000	Audited 30 June 2022 \$'000
Net gain/(loss) for the year	3,193	3,997	6,160
<i>Items Not Involving Cash Flows</i>			
Depreciation and loss on sale	242	269	596
Depletion of forest	6,651	7,435	13,407
Deferred tax	284	(553)	(3,274)
Depreciation recovered/capital gains	-	(3)	(3)
Forestry revaluation	(5,972)	(6,601)	(9,475)
Write down value of land	-	-	(453)
Lease liability	6	9	18
Other non-cash items			
<i>Impact of Changes in Working Capital Items</i>			
(Increase)/Decrease in accounts receivable	1,926	3,234	396
(Increase)/Decrease in inventories	148	(1,195)	(987)
(Increase)/Decrease in prepayments	(136)	6	125
(Increase)/Decrease in tax	978	2,114	853
(Increase)/Decrease in other current assets		-	187
Increase/(Decrease) in accounts payable	(2,454)	(2,732)	174
(Increase)/Decrease in other current liabilities	570	246	(466)
Net cash inflows/(outflows) from operating activities	5,436	6,226	7,258

CITY FORESTS LIMITED

Notes to the Financial Statements (cont'd)

For the Six Months Ended 31 December 2022

4. FORESTRY ASSETS

	Unaudited 31 December 2022 \$'000	Unaudited 31 December 2021 \$'000	Audited 30 June 2022 \$'000
Balance at the beginning of the year	201,362	200,246	200,246
Add Costs capitalised in establishing forests during the year	2,212	2,028	3,649
Increase in forest from acquisition	-	-	1,400
Forest revaluation	5,972	6,601	9,475
Less Cost of trees harvested at fair value	(6,650)	(7,435)	(13,408)
	<u>202,896</u>	<u>201,440</u>	<u>201,362</u>

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

5. PROPERTY, PLANT AND EQUIPMENT

Opening balance	101,416	80,309	80,310
Plus purchases/(disposals)	4,850	1,414	11,050
Plus impairment reversal	-	-	453
Less property intended for sale	-	-	-
Less depreciation	(242)	(270)	(553)
Plus/Less revaluations	-	-	10,156
	<u>106,024</u>	<u>81,453</u>	<u>101,416</u>
Capital commitments	<u>-</u>	<u>9,675</u>	<u>2,475</u>

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 2022 accounts only).

The Company has a conditional offer to purchase \$8.185 million of land assets during the second half of the 2023 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 2022

7. DERIVATIVE FINANCIAL INSTRUMENTS

	Unaudited 31 December 2022 \$'000	Unaudited 31 December 2021 \$'000	Audited 30 June 2022 \$'000
Assets:			
Forward foreign exchange contracts	-	498	-
	-	498	-
Liabilities:			
Forward foreign exchange contracts	2,067	-	3,580
Interest rate swaps	-	13	-
	2,067	13	3,580

8. TERM LOANS

Dunedin City Treasury loan facility	34,250	15,150	20,600
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9. CARBON CREDITS

Opening balance	78,809	49,443	49,443
Plus credits allocated/purchased	-	-	329
Plus/(less) revaluation	488	27,850	40,168
Plus/(less) sales	-	(3,131)	(11,131)
Closing balance	79,297	74,162	78,809

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 2022 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 2022

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 6.7%.
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 312.5 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 Shanghai Jizhu Shiye Co Ltd (China) received 14.55% 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: 44.8%, (14 customers). China: 55.1%, (5 customers). Vietnam 0.14%, (1 customer). Japan 0.15%, (1 customer).
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. There were no NZU sales 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 21.8% by volume. (34% last year). Export log sales were 78.2% by volume. (66% last year).
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	On an annualised basis all customers received their contracted volumes within plus or minus

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	into account agreed variations.	10%. A number of domestic supply commitments were varied during the period at the request of the customer.
3b	The Company will meet its volume and log quality commitments to export shipping and export customer contracts.	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 182,085m ³ including billet wood. This is 50.5% of the sustainable annual yield of 360,708m ³ . Forecast harvest levels in the long term strategic plan for the next 3 years are; 359,731m ³ , 379,444m ³ and 388,080m 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 180 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 2022 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; 55% Flagstaff; 81% 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	Management plans are updated to reflect current management practices which are

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	operational management plans will be tracked.	informed by research outcomes, i.e. target tree stocking rates per hectare to optimise site carrying capacity.
7a	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) and this occurred by agreement with some customers for periods during the period.
7b	Annual supply volumes to major wood processors (Pan Pac, Craigpine, Niagara & Daiken) will be tracked and reported.	Otago & Southland wood processors were supplied the following volumes during the period: Pan Pac: 6,711m ³ Hollows: 2,505m ³ Gorton's: 694m ³ Great South: 1,447m ³ Timber Direct: 95m ³ Otago Lumber: 1,859m ³ Daiken: 14,428m ³ Bioenergy: 5,028m ³
7c.	The volume of wood supplied for Bioenergy uses will be tracked and reported.	
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.	12 month rolling lost time accident rate for staff and forest contractors was 5.9 lost time injuries per 1,000,000 hours.
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.	35 tests were conducted during the period. One positive random tests were recorded.
8c.	Forest Stewardship Council Certification of the Forest Estate will be maintained.	Forest Stewardship Council Certification was maintained following audit in 2022.
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.	The Company has a set of comprehensive forest management plans that have been externally audited as part of the Company maintaining FSC certification.
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.	Sponsorship of \$30,000 was awarded to Orokonui Ecosanctuary and \$10,000 to The Wildlife Hospital, Dunedin to contribute towards conservation of rare threatened and endangered (RT&E) species on and around the Company estate.
9a.	The Company will have in place an environmental management system which will include procedures for sustainability monitoring. Results of water sampling and	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,

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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 nil 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 2022 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. 138 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 312.5 ha's 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 2022, 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 2023 annual report in accordance with DCHL group standards.

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Forecasts (2022 – 2023 Financial Year)		Actual (half year to 31 December 2022)	
	\$'000		\$'000
EBITDA	11,700	EBITDA	5,113
Profit after income tax	7,600	Profit after income tax	3,193
Shareholders' funds to total assets	70.5%	Shareholders' funds to total assets	69.9%
Dividend Distribution	3,600	Dividend Distribution	1,000
Operating cashflow	6,000	Operating cashflow	5,436
Capex	7,400	Capex	4,712
Term debt	32,900	Term debt	34,250