



 City
Forests

**ANNUAL
REPORT**

**20
23**



QUICK FACTS

Community owned, city asset

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

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

Profitable, long-term business

Established in 1906, City Forests has contributed to the Dunedin economy for over 110 years and has returned \$89.7M to the city in dividends since 1990.

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

Sustainable forests, supporting the environment

Forestry and the production of wood helps mitigate global climate change. There is approximately 7.41M tonnes of CO₂e stored in City Forests.

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

\$3.6M

in Dividends
for the year ended
30 June 2023

\$10M

Return of
Capital

76



STAFF &
CONTRACTORS
EMPLOYED


11,571

OF BIOENERGY
SUPPLIED





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



7.41m
TONNES
CO₂e stored in
City Forests



\$45k
WILDLING PINE
CONTROL

25,187 ha
of **LAND UNDER
MANAGEMENT**

1,090,700
NEW TREES PLANTED 2022-2023



\$136k

SPONSORSHIPS

including:

- Predator Free Dunedin
- Orokonui Eco-Sanctury
- Yellow Eyed Penguin Trust
- Dunedin Wildlife Hospital



Company Particulars

As at 30 June 2023

DIRECTORS

S A Mason – F.C.A., C.F.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)

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

K E Bromfield – PhD, CM.Inst.D., (Appointed 1.9.22)

J F Gallaher – A.F.A., F.C.A., B Com., CF.Inst.D., A.N.Z.I.M. (Appointed 26.10.12) (Appointed Chairman 1.10.13 – Retired 31.10.22)

T J Mepham – B.Com., C.A., C.F.Inst.D (Appointed 09.12.13 – 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 9016, New Zealand

BANKERS

Westpac Banking Corporation

SOLICITORS

Gallaway Cook Allan

ACCOUNTANTS

Deloitte Limited

AUDITOR

Audit New Zealand on behalf of the Controller and Auditor General

SHAREHOLDER

Dunedin City Holdings Limited



Contents

<u>3</u>	Company Particulars
<u>6</u>	Directors' Report
<u>26</u>	Information on Directors
<u>27</u>	Trend Statement
<u>28</u>	Financial Statements
<u>32</u>	Statement of Cashflows
<u>34</u>	Notes to the Financial Statements
	Appendix:
<u>60</u>	Statement of Service Performance
<u>64</u>	Independent Auditor's Report



Directors Report



Directors' Report

For the Year Ended 30 June 2023

The Directors of City Forests Limited are pleased to present their report on the activities of the Company for the year ended 30 June 2023.

PRINCIPAL ACTIVITIES OF THE COMPANY

This report covers the financial year 1 July 2022 to 30 June 2023.

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

RESULTS FOR THE YEAR ENDED 30 JUNE 2023

	\$'000
Operating Surplus before Income Tax	8,759
Less Income Tax	(3296)
Net Surplus for the Year	5,463

STATE OF AFFAIRS

The Directors are satisfied with the results achieved by the Company during the year having regard to the heightened operational and market risks arising from a hangover from Covid 19, geopolitical issues, higher inflation and disruption to the carbon market following Government policy announcements. Despite the market volatility created by these risk factors Directors consider that the state of affairs of the Company remains strong.

DIVIDENDS

The Directors declared and paid a total of \$3.6m in Dividends during the year made up of;

- an interim un-imputed dividend of \$1.0m in December 2022
- a final un-imputed dividend of \$2.6m in June 2023

CAPITAL RESTRUCTURE

The Company returned \$10 million of capital to its shareholder in December 2022 through a Capital Restructure.

DONATIONS

There have been donations made of \$23,380 during the year.

RESERVES

The following net transfers have been made to or from reserves:

	\$'000
To Forestry Reserve	1,332
To Retained Earnings	530
From Hedging Reserve	605
To Land Revaluation Reserve	(1,949)
To Carbon Credit Reserve	(27,754)

REVIEW OF OPERATIONS

This review of operations and the accompanying financial reports cover the 1 July 2022 to 30 June 2023 financial year.

Directors report a modest financial performance for City Forests Limited during the year recording a profit after tax of \$5.5m. Dividends were paid of \$3.6m and a capital restructure payment of \$10m. A summary of markets and operational factors contributing to the result is detailed below

The Board and Management of the Company are committed to achieving best practice health and safety performance. Resources allocated to governance and oversight of this key operational area have been significant during the year. The Company recorded a Lost Time Injury Frequency (LTIF) of 11.6 lost time injuries per 1 million hours worked (LTIF 12.2 previous year). The Company continues to improve its health and safety systems in accordance with its annual plan. The areas of critical risk assessment, performance measurement and safety audit systems were a focus for the year. The Company continues to develop a strong safety culture demonstrated by external certification of contract operations, internal and external audit compliance, driver training programs and a commitment to a drug and alcohol impairment free workplace.

The ongoing impact of Covid-19 has remained a significant factor contributing to increased volatility in the key Asian export markets. Domestically the impacts of Covid have been present but manageable and have not materially impacted supply chain performance.

The Company continues to demonstrate its commitment to responsible and sustainable management of its forest estate and has held

uninterrupted Forest Stewardship Council (FSC) certification since 2000.

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

The Company makes its forest estate available for community recreation which incorporates open areas (outside work hours), permitted access and permitted events. Walking and mountain biking is highly popular and the Company works with Mountain Bike Otago to establish and operate numerous cycle tracks and works to manage these trails around forest operational constraints. Hunting remains the most popular permitted activity with significant demand for hunting blocks. Organised events such as the Otago Rally, and running races such as Three Peaks occur throughout the year.

City Forests is committed to taking action to reduce the impacts of climate change and has an emissions reduction plan that forms a component of the shareholder's net zero 2030 carbon emissions target. The measurement of operational carbon emissions has been undertaken for the third year.

In addition, the Company makes a significant contribution to the wider Dunedin City zero carbon goal through afforestation under the New Zealand



Emissions Trading Scheme and bio-energy supplies.

The largest contributor to the Dunedin City goal is the carbon stored in Company forests approximately 7.414m tonnes of CO₂-e. As new land is acquired and established into forest, the carbon storage increases and where new forest is established on farmland there is also a gross emission reduction of farming emissions. The Company is a long term participant in the New Zealand Emissions Trading Scheme which enables the Company to be financially rewarded for carbon sequestration.

The Company has been a leader in establishing bioenergy supply in Otago and Clutha districts and multiple energy sites across these districts are now powered by renewable wood energy sourced from the Company forests. During the year bioenergy supply has been expanded through further bioenergy supply contracts enabling customers to convert from coal or gas to renewable wood fuel for energy generation.

Targets for reductions in emissions through our supply chains are been established. However, progress is likely to be slow until suitable technology like hydrogen or large battery transport enablers are developed.

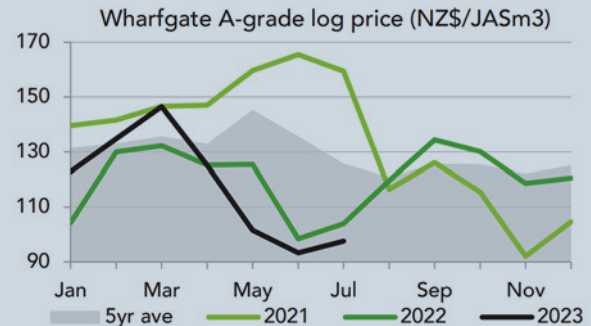
LOG EXPORT MARKETS

The Company continues to supply both the South Korean and Chinese log markets with regular break bulk shipments. Smaller volume containerised shipments were also made to South Korea, Japan and Vietnam.

Prices were volatile throughout the year in the “price setting” Chinese market resulting from slowing economic activity. The residual impact of a series of Chinese building company collapses, uncertainty created by the Ukraine War, increased

imports of sawn timber, worldwide inflation and the residual impact of Covid-19 lockdowns all impacted Chinese imported log prices. Likewise, the South Korea market was flat during the year with slowing economic activity and subdued log demand.

Chart: In Market Export Log Prices



The cost per cubic metre of international shipping to Asian markets reduced during the year. This generally mirrored the markets reducing demand for logs and in turn shipping demand.

The reduction in shipping costs had a positive impact on NZD returns however this was offset by greater falls in USD log prices, leading to an overall reduction in NZD wharf gate returns during the second half of the financial year.

Chart: Shipping Costs



The value of the New Zealand Dollar compared to the United States Dollar was likewise volatile during the year across the 0.55c – 0.65c range, although more stability was noted about the 0.61c – 0.63c range in the second half of the financial year.

The combined movements of in market export log prices, shipping costs and the value of New Zealand Dollar delivered a period of volatile log export returns for New Zealand forest owners as detailed on the chart below

FOREIGN EXCHANGING HEDGING

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

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

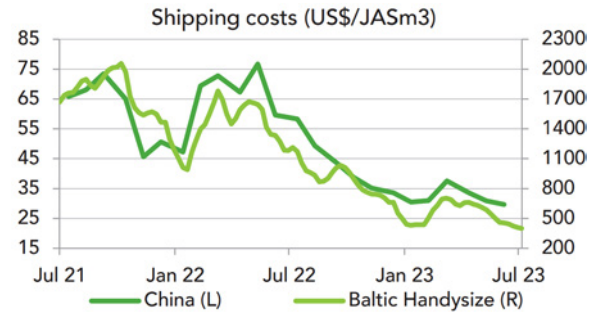
DOMESTIC LOG MARKET

The Company continues to supply domestic mills in Otago and Southland. Overall, 21.0% (28.5% previous year) of log production from the Company’s forests was supplied to domestic customers. Domestic supply is constrained by

domestic log processing production capacity.

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

Chart: New Zealand Industry Average Export and Domestic Prices

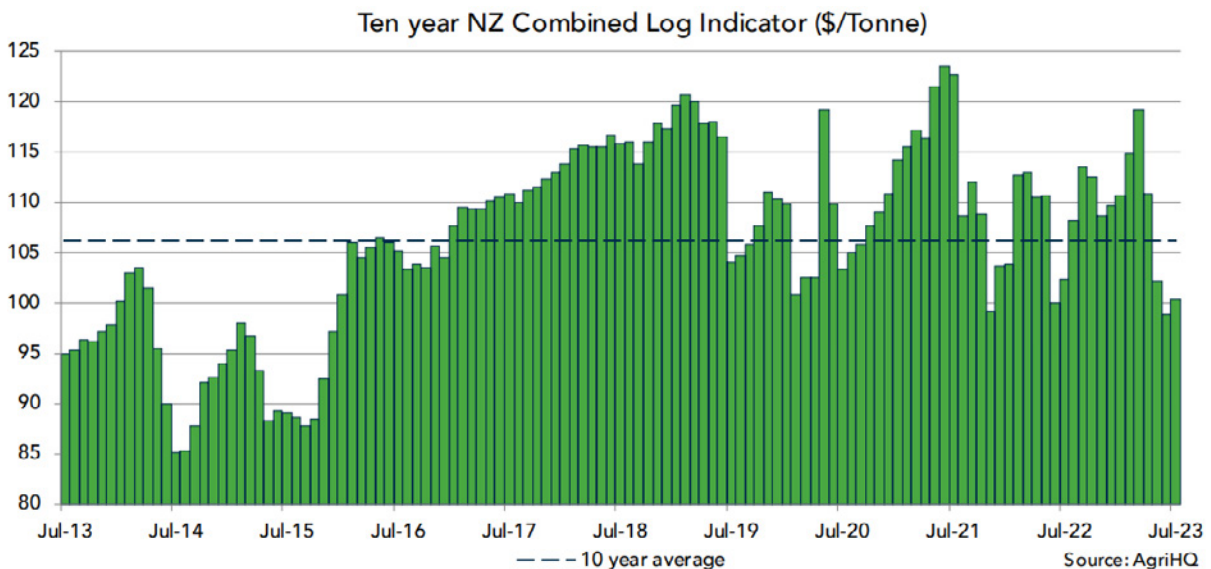


FOREST PRODUCTION

The Company had a modest production year, intentionally harvesting below sustainable cut levels for sawlogs but recovering more low grade residual wood. The decision to reduce production of higher grade logs was taken in response to periods of log export market weakness. The overall harvest production from the forest estate was 360,562m3 compared to 360,708m3 planned. (343,326m3 previous year)

The Company handled a total volume of 379,477m3 for the year. 18,914m3 of outside wood was traded during the year principally to supplement log export operations.

Chart: New Zealand Industry Average Log Prices



Source: AgriHQ



**THE COMPANY
HANDLED A
TOTAL VOLUME
OF 379,477M3
FOR THE YEAR**

ROADING AND INFRASTRUCTURE

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

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

FOREST ASSET OPERATIONS

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

New generation tree genetics offer significant gains in tree growth and wood properties compared to the tree stocks currently being harvested.

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

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

NEW LAND ACQUISITION

During the year the Company purchased 312.5 ha of new land (1072.2 ha previous year). The land is situated adjacent to the Company's existing forests and will be progressively planted during the 2023 and 2024 planting season providing an increase in the Company's sustainable harvest

level and carbon sequestration. The Company continues with its strategy of estate expansion where quality forest and or land can be acquired economically in proximity to the existing estate, however current uncertainty surrounding future forestry settings within the Emissions Trading Scheme has increased the risk such that acquisitions are currently on hold until policy is resolved.

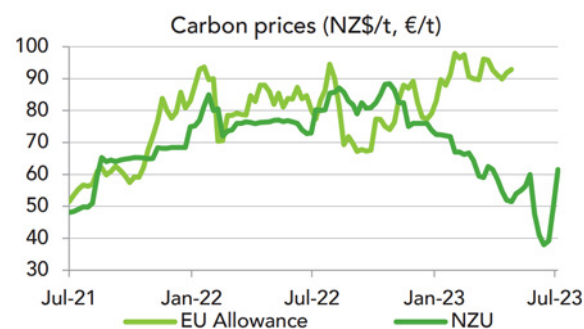
CARBON

The Company continues to be a participant in the Emissions Trading Scheme and the Company's forests store a significant volume of carbon expressed as New Zealand Units (NZU's) each representing one tonne of carbon dioxide (CO₂).

The Company has filed its emissions return for the 2022 emissions year. As at 30 June 2023 the Company has not received the NZU's as a result of filing that return.

The Company did not trade any NZU's during the period. The market price of an NZU was highly volatile during the year trading between \$34 and \$86. The risks associated with the future value of forestry generated NZU's and the ability to register farmland in the ETS increased sharply as a result of Climate Change Commission advice and Ministry for the Environment Emission trading Scheme regulation consultation documents being released.

Chart: NZU Price. Source NZ AgriHQ



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

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

The recognition of NZU's held in the Company's registry account is defined by accounting policy. Units are held at fair value. The fair value of a NZU available for sale is the market price. Carbon units that are held to be surrendered to meet future harvest liabilities are initially recognised and subsequently valued at nil.

GREENHOUSE GAS EMISSIONS REPORTING

The Company has established a Carbon Emissions and Waste Reduction plan during the period. This is in line with the Net Zero 2030 target established for the Dunedin City Council group. In addition, the Company's actions of afforestation and the provision of wood fuel for bioenergy contribute to the wider Dunedin City zero carbon goal.

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

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

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

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

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

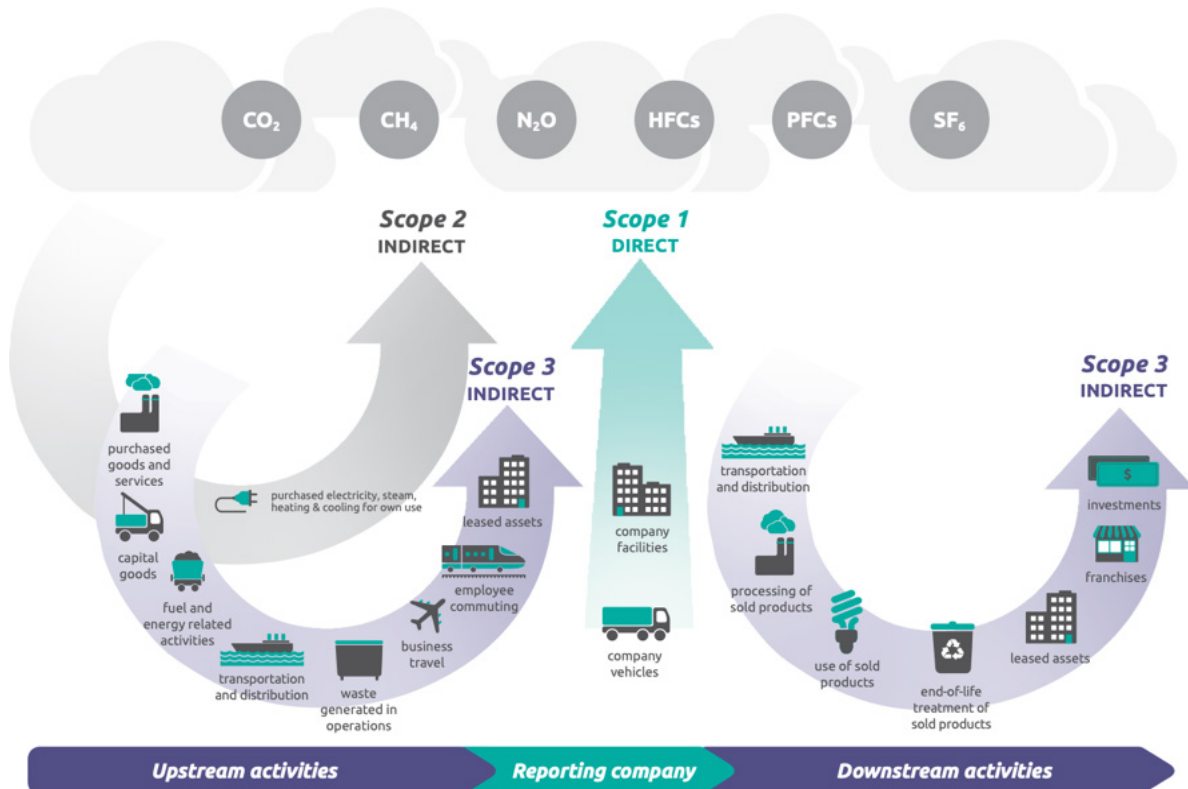
Scope 1 emissions are direct emissions that are operationally controlled by City Forests Limited, including:

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

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

- Purchased electricity that is consumed at operational sites.

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



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

Our Scope 3 emissions include the following:

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

Results

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

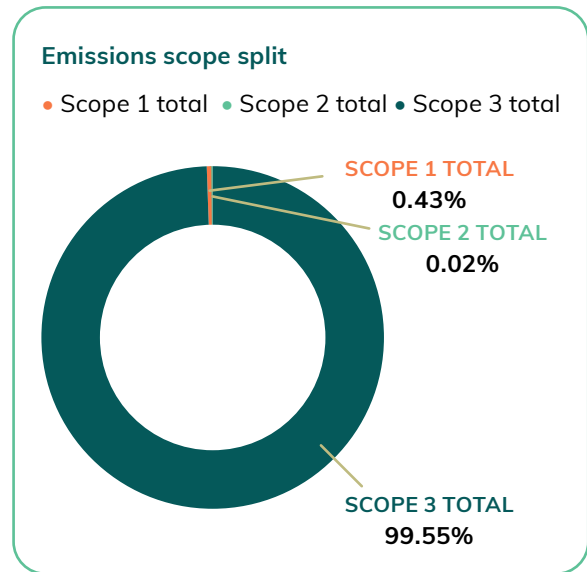
EMISSIONS BY SCOPE

City Forests estimated GHG emissions for the year ended 30 June 2023 are 25,418 tCO₂-e, with sequestration from native reserve areas of 3,838 tCO₂-e, resulting in net emissions of 21,581 tCO₂-e. As described above commercial forest carbon sequestration / emissions are excluded and the Company's primary source of emissions is Scope 3 emissions relating to contract supply chain operations.

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

Emissions	t CO ₂ -e	% of Total
Scope 1	110	0.43%
Scope 2	5	0.02%
Scope 3	25,303	99.55%
Total	25,418	100.00%
Forestry net total	(3,838)	-15.10%
Inventory total	21,581	84.90%

Figure 1 Emissions by Scope

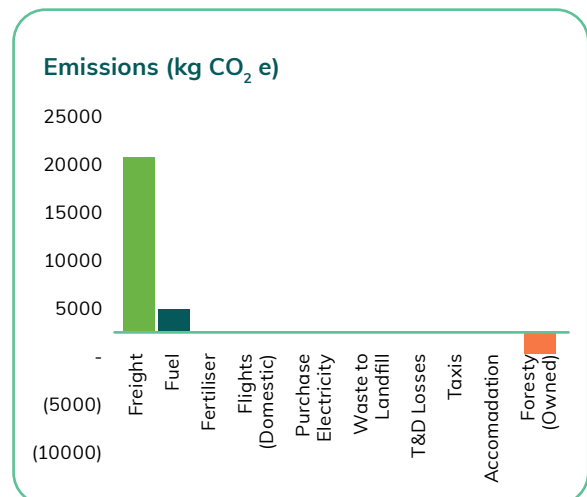


EMISSIONS BY ACTIVITY

Our top emissions sources are summarised below.

Category emission source	t CO ₂ -e
Freight	21,111
Fuels	4,298
Fertiliser	0
Flights (Domestic)	1
Purchased Electricity	5
Waste to landfill	2
T&D losses	0.3
Taxis	0.3
Accommodation	0.0
Forestry (owned)	(3,838)

Table 2 Emissions by activity



**DURING THE YEAR
THE COMPANY
PURCHASED
312.5 HA OF
NEW LAND**



EMISSION REPORTING NEXT STEPS

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

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

FOREST VALUATION

Company forest crops are valued annually on 30 June and the fair value increased by \$4.181 million from the previous year. The primary drivers of the valuation change were changes in 5-year average log prices and inflation related land rental and production cost impacts. The discount rate applied to the valuation is unchanged at 5.5%.

This year's valuation change is modest and reflects the outcome of a standard New Zealand Institute of Forestry forest valuation approach that has been independently peer reviewed by a third-party, Woodlands Pacific.

Company land is valued using a market-based fair value approach undertaken by independent registered valuers. This is consistent methodology with previous years. The land value decreased by \$4.905m during the year, increasing through acquisition but reducing overall in terms of value per hectare as a response to changes in the carbon price and future uncertainty around Emission Trading Scheme regulations.

For both forest crop and land valuations, key input variables impacting the valuation are benchmarked against industry averages to ensure they meet the conservative but fair value test.

FUTURE STRATEGY

The Company continues to operate in a challenging forest products market although market conditions are typically variable. In

addition, the environmental benefits provided by forests, such as carbon sequestration, are becoming increasingly valuable and will continue to be a strong part of our ESG strategy.

As discussed above there are currently a number of notable risk factors increasing market volatility for the Company's two key products, logs and carbon whilst inflation of operating costs continues. Although these factors are impacting short term returns and asset valuations the long-term demand for sustainable wood products and climate change related environmental services is forecast to be strong.

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

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

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

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

OUTLOOK

The outlook for the 2024 financial year is predicted to deliver a modest result with profitability being impacted by market risk (logs and carbon), inflation and geopolitical tensions. The underlying operational performance is predicted to be similar to previous years. However, profitability will be variable and dependent on how log markets, carbon markets and the wider international economy are impacted by current risk factors.

The Company's financial performance is driven by export and domestic log sales and strong customer relationships. A dividend of \$16.5 million is forecast for the 2024 year. This includes a \$3.0m normal dividend and a special distribution of \$13.5m, the latter being sourced from the Company carbon asset.

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

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

Carbon credit revenues are expected to increase medium term due to a forecast increase in the market price of NZU's and are expected to remain a significant contributor to Company performance.

CHANGE OF DIRECTORS

Mr Scott Mason became Chairman as of 1st September 2022.

Mr John Gallaher (Chairman to 31st August 2022) and Mr Tim Mepham retired as of 31st October 2022, although both attended the 1st November 2022 Board meeting as this meeting was effectively the October meeting.

The Company recognises the outstanding contribution made by Mr Gallaher as Chairman and Mr Mepham as a Director over their decade of service to the Company. Both oversaw a significant period of

development and growth of Company assets.

As of 1st September 2022 Dr Kate Bromfield joined the Board.

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 and her internship ended 30th June 2023.

FINANCIAL STATEMENTS

The audited financial statements for the year ended 30 June 2023 are attached to this report.

DIRECTORS' INTERESTS IN CONTRACTS

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



AUDITORS

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

EMPLOYEE REMUNERATION

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

Table 1:

Employee Remuneration and Other Benefits, \$000	No of Employees
\$100,000-\$110,000	3
\$110,000-\$120,000	2
\$120,000-\$130,000	2
\$180,000-\$190,000	1
\$220,000-\$230,000	1
\$230,000-\$240,000	1
\$380,000-\$390,000	1

DISCLOSURE OF CHIEF EXECUTIVE OFFICE REMUNERATION

The base salary of the CEO is in the range of \$300,000 - \$310,000. Additionally short-term incentives of between \$30,000 and \$40,000 and long-term incentives of nil are paid if performance criteria is met. This excludes other benefits. The performance criteria used to determine the performance-based payments are based on Company financial performance, health and safety performance, delivery of strategy including performance improvement and managing risk.

GENDER DIVERSITY

There are two men and two women at board level, and four men at senior management level across the organisation. There are 11 men and two women in the organisation.

INFORMATION ON THE DIRECTORS OF CITY FORESTS LIMITED

Director Remuneration \$000's

	2023	2022
Scott A Mason	69	37
Chairman (Appointed 1 September 2022)		
Non-Executive Director (Appointed 1 October 2019)		
Phil R Melhopt	37	15
Non-Executive Director (Appointed 1 February 2022)		
K Alison Posa	37	37
Non-Executive Director (Appointed 1 October 2019)		
Chair, Audit Committee (Appointed 1 May 2023)		
Kate E Bromfield	31	-
Non-Executive Director (Appointed 1 September 2022)		
John F Gallaher	19	74
Chairman (1 October 2013 – 31 August 2022) Retired 31 October 2022		
Non-Executive Director (Appointed 26 October 2012)		
Chairman, Remunerations Sub Committee (Appointed 1 October 2013)		
Tim J Mepham	12	37
Non-Executive Director (Appointed 1 December 2013) Retired 31 October 2022		



DIRECTORS' INSURANCE

As provided in the Company's Constitution, City Forests Limited has arranged policies of Directors' Liability Insurance, which together with a deed of indemnity, ensure that the Directors will incur no monetary loss as a result of actions undertaken by them as Directors provided that they operate within the law.

DIRECTORS' BENEFITS

No Director of City Forests Limited has, since the end of the previous financial year, received or become entitled to receive a benefit other than a benefit included in the total remuneration received or due and receivable by the Directors shown in the financial statements.

There were no notices from Directors of the Company requesting to use Company information received in their capacity as Directors, which would not otherwise have been available to them.

STAFF

The Directors record their appreciation of the professional and positive way that both staff and contractors have carried out their duties during what has been a challenging year. The Company is very fortunate to have a small but highly skilled and dedicated team ably led by Grant Dodson, the Company's Chief Executive Officer supported by an experienced Board of Directors.

During the year Mr Ross Edgar retired after over 35 years and Mr John McMecking retired after 10 years of service from the Company. Directors record their appreciation and note their dedication to City Forests over their many years of service.

Mr John Woodhall and Mr Rodney Jordan joined the Company staff during the year.

On behalf of the Board of Directors:

S A Mason
Chairman

K A Posa
Director

Date 19 Sept 2023

Date 19 Sept 2023



CITY FORESTS

Environmental

Social &

Governance

“FORESTS FOR OUR FUTURE”



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

CLIMATE CHANGE

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

HEALTH AND SAFETY

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

OUR PEOPLE

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

SOCIETY AND COMMUNITY

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

RESPONSIBLE BUSINESS

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

Company Highlights ^{*\$,000}

NET PROFIT AFTER TAX

\$5,463*

SHAREHOLDER FUNDS

\$244,967*

DIVIDENDS PAID

\$3,600*

RETURN OF CAPITAL

\$10,000*



Information on the Directors of City Forests Limited

Director, Qualifications and Declarations of Interest

Mr Scott A Mason (Non-Executive Director)
F.C.A., C.F.Inst.D., B Com., B.A., cBA.,
DipGradBus (Disp Res), A.A.M.I.N.Z.

Date appointed 1 October 2019

Appointed Chairman 1 September 2022

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

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

Date appointed 1 October 2019

Chair, Audit Committee

Date appointed 1 May 2023

Director, Asurequality Limited
Member Audit Advisory Board,
PricewaterhouseCoopers

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

Date appointed 1 February 2022

Chief Executive Officer, Primeport Timaru
Limited

Dr Kate E Bromfield (Non-Executive Director)
PhD, CM.Inst.D.

Dated appointed 1 September 2022

Chief Executive Officer, Hazard Evaluation
Limited
Board of Trustees NZ Familial Breast and
Ovarian Cancer Trust
Director, Elemental Group Limited

John F Gallaher (Chairman appointed 1 October 2013)
A.F.A., F.C.A., B Com., C.F.Inst.D., A.N.Z.I.M.

Date appointed 26 October 2012

Retired 31 October 2022

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

Mr Tim J Mephram (Non-Executive Director)
C.A., B Com., C.F.Inst.D.

Date appointed 9 December 2013

Retired 31 October 2022

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

Trend Statement

For the Year Ended 30 June 2023

(All \$,000 unless stated otherwise)	2023	2022	2021	2020	2019
FINANCIAL PERFORMANCE					
Domestic Revenue	9,780	8,895	12,001	9,553	11,831
Export Revenue	53,142	55,199	51,660	37,085	46,785
Other Revenue	513	1,634	1,433	576	432
Total Operating Revenue	63,435	65,728	65,094	47,214	59,048
Percentage Increase	(3.49%)	.97%	37.8%	(20.0%)	9.4%
Inventory Movement	213	56	(916)	(43)	86
Total Expenses	65,118	67,319	57,352	45,926	48,484
Percentage Increase	3.3%	17.4%	26.5%	(5.2%)	5.9%
Operating Surplus	(1,470)	(1,535)	6,888	1,245	10,650
Gain in fair value of forestry asset	13,185	9,474	38,164	11,628	20,333
Write down value of land	(2,956)	453	803	(69)	(462)
Surplus after non-operating items and before taxation	8,759	8,392	45,793	12,804	30,521
Income Tax	3,296	2,232	12,572	3,626	8,349
TOTAL SURPLUS AFTER TAXATION	5,463	6,160	33,221	9,178	22,172

SHAREHOLDERS' FUNDS

Shareholders' Funds	244,967	282,203	246,898	201,816	184,759
Operating Cash flow	6,258	7,258	16,344	5,659	13,578
Return of capital	10,000	-	-	-	-
Dividends Paid - Normal	3,600	5,000	4,200	4,500	6,500
- Special	-	1,800	4,000	-	1,500
Value of Forest	205,543	201,362	200,246	169,150	164,010
Surplus after tax to shareholders funds	2.2%	2.18%	13.45%	4.55%	11.99%
Proprietorship Ratio	69.4%	72.56%	73.06%	72.12%	71.60%
Net Forest Revaluation	9,493	6,822	27,478	8,374	14,640
Net Land Revaluation	(1,949)	10,156	7,327	2,796	4,735

FOREST STATISTICS (Whole numbers)

Forest harvested (m3)	360,562	343,326	388,664	310,100	336,374
Volume traded (m3)	18,914	26,358	13,597	27,093	31,967
Forest planted (ha)	1,214	1,054	1,030	970	765
Total forest (ha)	20,084	19,919	19,324	19,050	18,143
Forest purchased (ha)	-	130	87	-	38

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

Statement of Comprehensive Income

For the Year Ended 30 June 2023

	NOTE	2023 \$,000	2022 \$,000
Revenue	3	63,371	65,086
Financial income		64	1,095
Gain in fair value of forestry asset	5	13,185	9,475
TOTAL REVENUE		76,620	75,656
Inventory Movement		213	56
LESS EXPENSES:			
Contractors		17,948	16,864
Depreciation and amortisation expense		663	568
Directors' fees		206	200
Employee expenses		2,323	2,238
Financial expenses		2,702	453
Other expenses	4	44,232	46,997
Total expenses		68,074	67,320
Profit before tax		8,759	8,392
Income tax expense	13	3,296	2,232
NET PROFIT AFTER TAX		5,463	6,160
OTHER COMPREHENSIVE INCOME:			
Gains/(loss) on cash flow hedges taken to equity		841	(4,368)
Tax effect of cash flow hedges taken to equity		(236)	1,223
(Decrease)/Increase in land revaluation		(1,949)	10,156
Carbon credits revaluation above initial recognition taken to equity		(38,530)	40,167
Tax effect of carbon credits taken to equity		10,775	(11,233)
TOTAL OTHER COMPREHENSIVE INCOME FOR THE YEAR		(29,099)	35,945
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		(23,636)	42,105

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

Statement of Changes in Equity

For the Year Ended 30 June 2023

	2023 \$,000	2022 \$,000
Equity at beginning of year	282,203	246,898
Net profit after tax	5,463	6,160
Other comprehensive income for the year	(29,099)	35,945
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	(23,636)	42,105
Distribution to owners		
Dividends	(3,600)	(6,800)
Return of capital	(10,000)	-
	(13,600)	(6,800)
EQUITY AT END OF YEAR	244,967	282,203

Statement of Financial Position

As at 30 June 2023

EQUITY	NOTE	2023 \$,000	2022 \$,000
Share Capital	8	15,691	25,691
Forestry reserve	9	103,852	102,520
Land revaluation reserve	9	47,891	49,840
Hedging reserve	9	(1,972)	(2,577)
Carbon credit reserve	9	28,280	56,034
Retained earnings	10	51,225	50,695
TOTAL EQUITY		244,967	282,203
LIABILITIES			
<i>CURRENT LIABILITIES</i>			
Trade and other payables		3,573	4,391
Other current liabilities		314	295
Employee Provisions		243	238
Derivative financial instruments	11	2,039	1,679
Provision for taxation	13	2,209	5,413
Lease liabilities	19	151	142
Total current liabilities		8,529	12,158
<i>NON-CURRENT LIABILITIES</i>			
Derivative financial instruments	11	700	1,901
Term borrowings	12	36,000	20,600
Lease liabilities	19	314	330
Deferred tax liability	14	62,421	71,866
Total non-current liabilities		99,435	94,697
TOTAL LIABILITIES		107,964	106,855
TOTAL EQUITY PLUS LIABILITIES		352,931	389,058

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

CURRENT ASSETS	NOTE	2023 \$,000	2022 \$,000
Cash and cash equivalents		1,184	1,373
Trade and other receivables		2,872	3,530
Inventories – raw materials		1,192	1,144
Prepayments		127	236
GST refund		352	889
Deposit on land		113	275
TOTAL CURRENT ASSETS		5,840	7,447
NON-CURRENT ASSETS			
Property, plant and equipment	7	101,256	101,416
Forestry assets	5	205,543	201,362
Investments		2	1
Intangibles – computer software		11	23
Intangibles – New Zealand carbon credits	6	40,279	78,809
Total non-current assets		347,091	381,611
TOTAL ASSETS		352,931	389,058

For and on behalf of the Board of Directors:

S A Mason
Chairman

Date 19 Sept 2023

K A Posa
Director

Date 19 Sept 2023

Statement of Cash Flows

For the Year Ended 30 June 2023

	NOTE	2023 \$,000	2022 \$,000
CASH FLOWS FROM OPERATING ACTIVITIES			
<i>CASH WAS PROVIDED FROM</i>			
Receipts from customers		65,429	64,518
Effect of exchange rate changes		(1,606)	1,095
Interest received		73	-
		63,896	65,613
<i>CASH WAS DISBURSED TO</i>			
Payments to suppliers and employees		51,197	53,255
Interest paid		1,035	447
Income tax/subvention		5,405	4,653
		57,638	58,355
NET CASH INFLOWS/(OUTFLOWS) FROM OPERATING ACTIVITIES	16	6,258	7,258
CASH FLOWS FROM INVESTING ACTIVITIES			
<i>CASH WAS PROVIDED FROM</i>			
Carbon credits sold		-	11,131
Sale of property, plant and equipment		-	10
		-	11,141
<i>CASH WAS DISBURSED TO</i>			
Purchase of property, plant and equipment		4,389	11,273
Purchase of forest assets		3,708	4,537
Purchase of carbon credits		-	329
		8,097	16,139
NET CASH INFLOWS/(OUTFLOWS) FROM INVESTING ACTIVITIES		(8,097)	(4,998)

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

	2023 \$,000	2022 \$,000
CASH FLOWS FROM FINANCING ACTIVITIES		
<i>CASH WAS PROVIDED FROM</i>		
Proceeds from borrowings	18,300	18,300
	18,300	18,300
<i>CASH WAS DISBURSED TO</i>		
Repayment of borrowings	2,900	13,700
Lease repayments	151	164
Dividends paid	3,600	6,800
Return of capital	10,000	-
	16,651	20,664
NET CASH INFLOWS / (OUTFLOWS) FROM FINANCING ACTIVITIES	1,649	(2,364)
Net (Decrease)/Increase in Cash Held	(190)	(104)
Cash and short-term deposits at the beginning of the year	1,373	1,477
CASH AND SHORT-TERM DEPOSITS AT THE END OF THE YEAR	1,183	1,373



ACCOUNTING POLICY

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

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

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

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



NOTES TO THE

Financial

Statements

Notes to the Financial Statements

For the Year Ended 30 June 2023

1. REPORTING ENTITY

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

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

City Forests Limited is a profit orientated entity.

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

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

The financial statements were authorised for issue by the Directors on 19 September 2023.

Basis of Accounting

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

Standards as appropriate for profit entities.

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

Changes in Accounting Policies

The Company has consistently applied accounting policies to all years in these financial statements.

Certain new accounting standards and amendments have been issued that are not mandatory for the 30 June 2023 financial year and have not been early adopted. The Company has assessed that these are not likely to have an effect on its financial statements. Those new standards and amendments that are relevant to the Company are:

Amendments to NZ IAS 1

The International Accounting Standards Board (ASB) has issued amendments to IAS 1 Presentation of Financial Statements that are intended to help preparers in deciding which accounting policies to disclose in their financial statements. The amendments are effective for periods beginning on or after 1 January 2024 (earlier application is permitted) and require entities to disclose material accounting policies rather than significant accounting policies based on a four-step materiality process. The Company did not early apply these amendments.

Critical Accounting Estimates and Assumptions

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

discussed in the notes to the financial statements below. The estimates and assumptions that have a significant risk of causing a material adjustment to carrying amounts of assets and liabilities in the next financial year include:

Note 5 – Forestry asset valuations

Note 6 – New Zealand carbon credits valuation

Note 7 – Property, Plant and equipment valuation

Currencies

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

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

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

Good and Service Tax (GST)

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

Impairment of assets

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

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-

tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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

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

Inventories

Inventories reported in the balance sheet include:

- Log inventories

Valued at net realisable value less estimated point of sale costs.

- Other inventory

Valued at the lower of cost and net realisable value.

Cash and cash equivalents

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

Classification as trade receivables

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

Details about the Company's impairment policies and the calculation of the loss allowance are provided in Note 11.

Financial Instruments

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

Financial Liability and Equity

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

Interest income

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

Government Grants

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

3. REVENUE

	As at 30 June 2023 \$,000	As at 30 June 2022 \$,000
Sales revenue	62,922	64,095
Gain on sale of property, plant and equipment	-	3
Net reversal of land value impairments	-	453
Other revenue	449	535
	63,371	65,086
Net reversal of land value impairments:		
Impairment reversal	-	503
Write down of land value	-	(50)
Net write up	-	453



ACCOUNTING POLICY

Revenue Recognition

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

In respect of export sales, the largest category of sales, the Company has determined that there are two performance obligations. The Company is obligated under the contract to supply the specified goods and also to arrange and pay for shipping and insurance on behalf of the customer.

Control of the goods passes, and the service of arranging shipping and insurance is complete, at the point when the goods have been loaded onto a ship at the port of departure, to be delivered to the customer's chosen destination. Revenue is recognised at this point in time.

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

4. OTHER EXPENSES

	As at 30 June 2023 \$,000	As at 30 June 2022 \$,000
Audit of financial statements	117	51
Audit – cost recovery from audit of last year's financial statements	8	-
Donations	23	16
Net Impairment loss on valuation of land	2,956	-
Loss on sale of property, plant and equipment	-	28
Research expenditure	31	4
Cost of bush applied	12,712	13,408
Shipping costs	22,794	28,138
Other operating expenses	5,591	5,352
	44,232	46,997
Net reversal of land value impairments:		
Impairment reversal	(72)	-
Write down of land value	3,028	-
Net write down	2,956	-

5. FORESTRY ASSETS

	As at 30 June 2023 \$,000	As at 30 June 2022 \$,000
Balance at the beginning of the year	201,362	200,246
ADD		
Costs capitalised in establishing forests during the year	3,708	3,649
Increase in forest from acquisition	-	1,400
Forest revaluation	13,185	9,475
LESS		
Less Cost of trees harvested at fair value	(12,712)	(13,408)
	205,543	201,362
<i>Gains/(losses) arising from changes in fair value less point of sale costs;</i>		
attributable to physical changes	3,374	6,617
attributable to price changes	9,811	2,858
	13,185	9,475

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

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

Fair value requires calculating the present value of expected net cash flows using a post-tax discount rate. This discount rate used by the Company is 5.5% (2022 5.5%).

The forestry valuation is subject to a number of assumptions. The ones with the most significant volatility or impact on the valuation are the discount rate applied and log prices adopted. The discount rate adopted was 5.5% (2022 5.5%); a +/- 50 basis point movement in the discount rate would change the valuation by +\$17.9 mil /

-\$8.2 mil (2022 +\$12.8 mil / -\$11.7 mil). A 10% increase or decrease in assumed log prices would change the valuation by +\$17.0 mil / -\$16.9 mil (2022 +\$16.8 mil / -\$16.8 mil) (note that these sensitivities as shown are independent and different outcome would result from combined changes in discount and log prices).

At 30 June 2023 the Company owned stands of trees on 20,084 hectares of a total productive land within a total area of land holdings (including freehold, lease, Joint Venture & Forestry Right) of 25,187 hectares. During the year the Company harvested approx. 360,562 m3 of logs from its forests.

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

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

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



ACCOUNTING POLICY

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

The fair value of the forest, exclusive of the forest land, is determined at each reporting date. Fair value is equivalent to the NZIF Forest Valuation Standards definition of market value. Fair value is determined using the discounted cash flow methodology and in using this method, financing costs and replanting costs are excluded. The method first determines the current market value of the collective forest and land resource, with land then subtracted at its current market value to provide the value of the forest asset. The forestry assets valuation is based on unobservable inputs and falls withing Level 3 of the fair value hierarchy.

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

6. INTANGIBLES

- NEW ZEALAND CARBON CREDITS

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

A forest owner with forests established after 31st December 1989, under the Act, may opt to join the Emissions Trading Scheme. Post-89 forests will earn carbon credits (NZU's) from 1st January 2008 and these may be traded within New Zealand. City Forests Limited completed registration of the post-89 forests under the Emissions Trading Scheme in January 2010. These forests have been sequestering carbon under the scheme since 1st January 2008. Subsequent to our Post-89 registration, the New Zealand Government has allocated City Forests 2,865,718 Post-89 derived

NZU's, being the carbon sequestered by these forests during the 2008 to 2020 calendar years. There were carbon credit sales for the financial year of nil units. (2022 150,000).

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

As at 30th June 2023, 1,233,914 units were unsold (2022 1,045,944 units). Under the accrual principle, the safe carbon level credits have been valued based on the current market prices.

The value has been carried in the financial statements as follows:

	As at 30 June 2023 \$,000	As at 30 June 2022 \$,000
New Zealand carbon credits	40,279	78,809
Unt price	41.75	75.95

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.

The Company carries out modelling work to forecast future annual carbon sequestration and emission transactions in accordance with the rules of the New Zealand Emission Trading Scheme. This modelling establishes a safe or liability free carbon level being the number of NZU's the Company has available for sale liability free. NZU's held above this safe level effectively have no value as the NZU's are subject to future surrender liabilities following harvest. The safe carbon level is a management estimate based on the company's current official FMA (Forestry Management Approach) yield tables, and a City Forests' specific harvest schedule of Carbon Accounting Areas (CAAs) when managed in perpetuity. The estimate assumes ETS land eligibility for areas not yet registered. The modelling is independently reviewed by Woodlands Pacific Consulting Ltd.

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



ACCOUNTING POLICY

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

- Purchased carbon units are initially measured at cost.
- Carbon units are granted by the Government under the emissions trading scheme for carbon sequestration by post-1989 forests. Although some carbon units earned for forest growth will subsequently be returned to the government when the forest is harvested, a proportion of units will never be returned under expected forest crop rotations.
- All units allocated by government are initially measured at nil. Those units that are not required to be held to be surrendered to meet future harvest liabilities, are subsequently valued at fair value.
- Carbon units that are held to be surrendered to meet future harvest liabilities, are measured at nil.
- Liability free carbon units are marked to market (revalued) annually at 30 June subsequent to initial recognition. This fair value is based on current market prices. The difference between initial fair value or previous annual revaluation and revaluation value of the liability free units is recognised in other comprehensive income.
- The carbon credit valuation is based on market data and falls within Level 1 of the fair value hierarchy.
- Emissions obligations are recognised for forest harvesting that has occurred up to balance date. Emissions obligations are measured based on the carrying value of carbon units held by the company that will be used to settle the obligation (generally nil value) plus the fair value of any excess carbon units required to be purchased to meet the emissions obligation.

NZU's # of units at end of year	2023 #	2022 #
Held at Fair value	964,766	1,037,641
Held at Nil value	269,148	8,303
Total Units at end of year	1,233,914	1,045,944

Units – Post 1990

Opening	1,044,564	1,185,662
Credits Issued	187,970	-
Per Emissions Trading Register	1,232,534	1,185,662
Units acquired	-	8,902
Units sold	-	(150,000)
Fair Value NZU's	1,232,534	1,044,564

Units - Pre 1990

Opening balance	1,380	1,380
Closing balance at end of year	1,380	1,380
Closing balance all units at end of year	1,233,914	1,045,944
Less Units at Nil value	(269,148)	(8,303)
	964,766	1,037,641

\$
\$'000 \$
\$'000

Value applied to risk free units @ \$41.75 (2022 \$75.95)	40,279	78,809
---	--------	--------

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

The price is sensitive to economic factors that can lead to sudden significant price swings. The Company has a full policy on NZU management and manages the risk around price swings by maintaining a NZU holding as a percentage of Net Assets, constantly monitoring & reporting on current price/trends of NZUs and ensuring action if any quantitative trigger points occur in terms of upper/lower value thresholds.

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

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

The calculation of Safe carbon is a management estimate based on the best information available at 30 June.

The calculation is dependent on assumptions made in;

- the formation of the future harvest plan,
- an assumption of no change to the current FMA carbon yield tables
- and an estimation of carbon to be derived from a proportion of the post-89 forest area currently un-registered. This is new land either in the registration process or pending registration following planting.
- All of these variables are expected to change over time. The calculation is most sensitive to the harvest plan assumptions and the harvest plan can be expected to be modified over time as the forest harvest program is managed to meet market and supply chain operational constraints.

2023	FOREST LAND VALUATION \$'000	BUILDING COST \$'000	ROADS BRIDGES COST \$'000	PLANT EQUIPMENT COST \$'000	MOTOR VEHICLES COST \$'000	OFFICE EQUIPMENT COST \$'000	WORK IN PROGRESS COST \$'000	RIGHT OF USE ASSET \$'000	TOTAL \$'000
Cost or Valuation									
Balance at beginning of year	94,811	1,762	9,886	1,449	813	201	152	794	109,868
Purchases	3,739	316	705	77	540	10	-	131	5,518
Revaluation	(1,949)	-	-	-	-	-	-	-	(1,949)
Disposals	-	-	-	-	-	1	-	-	1
Balance at end of year	96,601	2,078	10,591	1,526	1,353	210	152	925	113,438
Accumulated depreciation/impairment									
Balance at beginning of year	1,122	232	5,101	1,040	472	161	-	324	8,452
Depreciation	-	46	257	72	121	14	-	142	652
Net Impairment reversal	2,956	-	-	-	-	-	-	-	2,956
Disposals	-	-	-	-	-	-	122	-	121
	4,078	278	5,358	1,112	593	175	122	466	12,182
BALANCE AT END OF YEAR	92,523	1,800	5,233	414	760	35	30	459	101,256
Comprising – Cost	-	1,800	5,233	414	760	35	30	459	8,731
– Valuation	92,523	-	-	-	-	-	-	-	92,523
Carrying amounts (revalued assets if measured under the cost model)	53,038	-	-	-	-	-	-	-	53,038

The company has had its land assets independently valued at 30 June 2023 by Morice Limited using the Fair Value approach. Morice Limited is a valuation company used by various other forestry companies. The revaluation movement in the land for the year ended 30 June 2023 was a decrease of \$4,905k (2022 increase of \$10,609k). All other asset classes are shown at cost.

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



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

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

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

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

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

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

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

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

assets cost or valuation less estimated residual value over their estimated remaining useful lives.

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

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

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

Depreciation rates and methods used are as follows:

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

Derecognition

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

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



7. PROPERTY, PLANT AND EQUIPMENT

47

DUNEDIN CITY FORESTS ANNUAL REPORT 2023 // FINANCIAL STATEMENT NOTES

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

8. EQUITY - SHARE CAPITAL

	As at 30 June 2023 \$,000	As at 30 June 2022 \$,000
Balance at the beginning of the year	25,691	25,691
Return of capital	(10,000)	-
BALANCE AT END OF YEAR	15,691	25,691

The Company has issued 24,779,775 (2022 25,690,522) ordinary shares and these are fully paid. Fully paid ordinary shares carry 1 vote per share and carry the right to dividends and pro rata share of net assets on winding up of the Company

Forestry Reserve

The forestry reserve arises with the revaluation of the forestry assets which is put to the statement of comprehensive income. There is a transfer between retained earnings and the forestry reserve of the revaluation net of deferred taxation.

	As at 30 June 2023 \$,000	As at 1 July 2022 \$,000
Balance at beginning of the year	102,520	103,921
Transfer from retained earnings	1,332	(1,401)
BALANCE AT THE END OF THE YEAR	103,852	102,520

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

Hedging Reserve

Balance at beginning of the year	(2,578)	568
Gain/(loss) in fair value movement in derivatives	606	(3,144)
BALANCE AT THE END OF THE YEAR	(1,972)	(2,578)

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

Land Revaluation Reserve

Balance at beginning of the year	49,839	39,683
Forestry land revaluations	(1,950)	10,156
BALANCE AT THE END OF THE YEAR	47,891	49,839

The land revaluation reserve records movements in the fair value of land.

Carbon Credit Reserve

Balance at beginning of the year	56,034	35,116
(Loss)/Gain in carbon credits above initial recognition value	(27,754)	28,933
Less transferred to retained earnings	-	(8,015)
BALANCE AT THE END OF THE YEAR	28,280	56,034

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

2023	<1 yr	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	5 yrs	TOTAL
Financial Liabilities							
Trade and other payables	3,887	-	-	-	-	-	3,887
Derivative financial instruments	2,039	613	87	-	-	-	2,739
Borrowings	-	-	-	-	-	36,000	36,000
	5,926	613	87	-	-	36,000	42,626

2022	<1 yr	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	5 yrs	TOTAL
Financial Assets							
Trade and other receivables	3,530	-	-	-	-	-	3,530
Derivative financial instruments	-	-	-	-	-	-	-
	3,530	-	-	-	-	-	3,530

Financial Liabilities							
Trade and other payables	4,411	-	-	-	-	-	4,411
Derivative financial instruments	1,679	1,620	281	-	-	-	3,580
Borrowings	-	-	-	-	-	20,600	20,600
	6,090	1,620	281	-	-	20,600	28,591

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

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

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

The following parameters are used:

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

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

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

Impairment of Financial Assets

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

- Trade receivables for sales of goods

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

Trade Receivables

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

To measure the expected credit losses, trade receivables have been grouped based on shared

credit risk characteristics and the days past due.

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

On that basis, the loss allowance as at 30 June 2023 was determined as follows:

30 June 2023	Current	More than 30 days past due	More than 60 days past due	More than 120 days past due	Total
Expected loss rate	0.0%	0.0%	0.0%	0.0%	
Gross carrying amount – Trade receivables	2,729	76	-	8	2,813
Trade receivables	-	-	-	-	-
Loss allowance	-	-	-	-	-

30 June 2022

Expected loss rate	0.0%	0.0%	0.0%	0.0%	
Gross carrying amount – Trade receivables	-	-	-	-	-
Trade receivables	907	2,597	-	26	3,530
Loss allowance	-	-	-	-	-

Liquidity Risk

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

Credit Risk

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

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

Sensitivity Analysis

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

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

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

	Notional Value \$'000	Foreign exchange			
		-10%		+10%	
		Equity	Profit	Equity	Profit
Financial Assets					
Derivatives					
Currency Hedges – Sell USD	39,815	4,724	-	(3,865)	-
Other Financial Assets	1,742	-	194	-	(158)
Total increase/(decrease)		4,724	194	(3,865)	(158)

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

Fair value of financial instruments

Fair value measurements recognised in the statement of financial position.

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

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

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

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

	2023				2022			
	Level 1 NZ \$'000	Level 2 NZ \$'000	Level 3 NZ \$'000	TOTAL NZ \$'000	Level 1 NZ \$'000	Level 2 NZ \$'000	Level 3 NZ \$'000	TOTAL NZ \$'000

Financial Liabilities

Derivative financial liabilities	-	2,739	-	2,739	-	3,580	-	3,580
	-	2,739	-	2,739	-	3,580	-	3,580



ACCOUNTING POLICY

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

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

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

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

Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in equity and the ineffective portion is recognised immediately in the statement of comprehensive income via surplus or deficit. If the cash flow hedge of a firm commitment or forecasted transaction results in the recognition of an asset or a liability, then, at the time the asset or liability is recognised, the associated gains or losses on the derivative that had previously been recognised in equity are included in the initial measurement of the asset or liability. For hedges that do not result in the recognition of an asset or a liability, amounts deferred in equity are recognised in the statement of comprehensive income via other comprehensive income in the same year in which the hedged item affects net profit or loss.

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

income via other comprehensive income.

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

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

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

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

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

	As at 30 June 2023 \$,000	As at 30 June 2022 \$,000
Dunedin City Treasury loan facility	36,000	20,600
	36,000	20,600

There is no security over the Dunedin City Treasury loan. This loan is \$36m evergreen.

The effective rate of interest for the Dunedin City Treasury Limited loan facility, ranged between 3.60% and 4.35% (2022 2.50% – 4.39%).

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

Multi-option note facility	36,000	20,600
Current	-	-
Non Current	36,000	20,600
	36,000	20,600

The repayment period on the term borrowings is as follows:



ACCOUNTING POLICY

Borrowings are initially recorded net of directly attributable transaction costs and are measured at subsequent reporting dates at amortised cost. Finance charges, premiums payable on settlement or redemption and direct costs are accounted for on

an accrual basis to the statement of comprehensive income via surplus or deficit using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the year in which they arise.

13. INCOME TAX

	As at 30 June 2023 \$,000	As at 30 June 2022 \$,000
Net profit from continued operations	8,759	8,392
Profit before income tax	8,759	8,392
Tax thereon at 28%	2,453	2,350
PLUS/(LESS) THE TAX EFFECT OF DIFFERENCES		
Expenditure not deductible for taxation	860	(3,223)
Under / (over) tax provision in prior years	(17)	(12)
Plus income assessable for taxation	-	3,117
Tax effect of differences	843	(118)
Tax expense	3,296	2,232
TAX EXPENSE MADE UP AS FOLLOWS:		
Continued operations	3,296	2,232
	3,296	2,232
Effective tax rate	37.6%	26.6%
REPRESENTED BY		
Current tax provision	2,209	5,412
Deferred tax provision	1,103	(3,168)
Prior period Current tax adjustment	(7)	93
Prior period Deferred tax adjustment	(9)	(105)
	3,296	2,232

Tax Rate

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

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



ACCOUNTING POLICY

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the statement of comprehensive income via surplus or deficit because it excludes items of

income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted by the balance sheet date.

	OPENING BALANCE SHEET	CHARGED TO EQUITY	CHARGED TO INCOME	CLOSING BALANCE SHEET ASSETS	LIABILITIES	NET
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
2023						
Property, plant and equipment	249	-	(30)	-	220	220
Employee provisions	(81)	-	4	(77)	-	(77)
Forest	39,870	-	517	-	40,387	40,387
Capitalised forestry costs	11,060	-	602	-	11,662	11,662
Revaluations of foreign exchange contracts	(1,002)	236	-	(767)	-	(767)
Revaluations of interest rate swaps	-	-	-	-	-	-
Revaluation of carbon credits	21,769	(10,775)	-	-	10,994	10,994
Other	1	-	1	-	2	2
Balance at the end of the year	71,866	(10,539)	1,094	(844)	63,265	62,421
2022						
Property, plant and equipment	277	-	(28)	-	249	249
Employee provisions	(72)	-	(9)	(81)	-	(81)
Forest	40,414	-	(544)	-	39,870	39,870
Capitalised forestry costs	10,638	-	422	-	11,060	11,060
Revaluations of foreign exchange contracts	246	(1,248)	-	(1,002)	-	(1,002)
Revaluations of interest rate swaps	(25)	25	-	-	-	-
Revaluation of carbon credits	13,653	11,233	(3,117)	-	21,769	21,769
Other	(2)	-	3	-	1	1
Balance at the end of the year	65,129	10,010	(3,273)	(1,083)	72,949	71,866

ACCOUNTING POLICY

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

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

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

15. RELATED PARTY TRANSACTIONS

Transactions with Dunedin City Council Group

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

	As at 30 June 2023 \$,000	As at 30 June 2022 \$,000
Purchases of goods and services from the Dunedin City Council:		
Rates and property rentals	31	28
Other	1	4
	32	32
Dunedin City Holdings Limited		
Dividends	3,600	6,800
Return of capital	10,000	-
	13,600	6,800
Delta Utility Services Limited		
Roading & Earthmoving Services	309	450
Payable to Delta Utility Services Limited	-	28
Subvention payments/tax compensation		
Dunedin Stadium Property Limited	981	-
Aurora Energy Limited	1,848	3,172
Dunedin City Holdings Limited	549	468
Dunedin Venues	9	-
Delta Utility Services Limited	798	-
Dunedin City Council	1,220	1,013
	5,405	4,653
Subvention payments are calculated based on the tax effect of the losses utilised.		
Loan from Dunedin City Treasury Limited as at balance date	36,000	20,600
Loans paid during the year	2,900	13,700
Loans received during the year	18,300	18,300
Interest due to Dunedin City Treasury Limited as at balance date	97	41
Interest receivable from Dunedin City Treasury Limited as at balance date	58	-
Interest paid during the year	1,083	435
Interest rebate received	(25)	-
Net interest	1,058	435

	As a 30 June 2023 \$,000	As a 30 June 2022 \$,000
Other related party transactions		
Primeport Timaru Limited – Phillip Melhopt	32,412	18,246
Forest Growers Research Limited (resigned 15 March 2022) – Grant Dodson	-	5,750
Southern Wood Council – Grant Dodson	5,060	3,335
Orokonui Ecosanctuary – Selwyn Chalmers	34,500	34,500
Predator Free Dunedin – Selwyn Chalmers	69,287	69,287

Compensation of key management personnel

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

	As at 30 June 2023 \$,000	As at 30 June 2022 \$,000
Salaries and Short-term benefits	1,239	1,186
	1,239	1,186

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

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

	As at 30 June 2023 \$,000	Restated as at 30 June 2022 \$,000
Net profit for the year	5,463	6,160
<i>Items Not Involving Cash Flows</i>		
Depreciation and loss on sale	663	596
Depletion of forest (cost of bush)	12,712	13,407
Deferred tax	1,103	(3,274)
Depreciation recovered/capital gains	-	(3)
Forestry revaluation	(13,185)	(9,475)
Write (up)/down value of land	2,955	(453)
Interest portion of lease liability	12	18
OTHER NON-CASH ITEMS		
<i>Impact of Changes in Working Capital Items</i>		
(Increase)/Decrease in accounts receivable	(658)	396
(Increase)/Decrease in inventories	48	(987)
(Increase)/Decrease in prepayments	116	125
(Increase)/Decrease in tax refund due	(3,210)	853
Increase/(Decrease) in accounts payable	817	187
Increase/(Decrease) in other current liabilities	(41)	174
Increase/(Decrease) in other current assets	(537)	(466)
Net cash inflows/(outflows) from operating activities	6,258	7,258

17. CAPITAL EXPENDITURE COMMITMENTS

As at 30 June 2023 the Company has capital commitments of \$452,000 (2022 \$2,475,000).

18. CONTINGENT ASSETS OR LIABILITIES

In future years there will be a carbon credit liability against a proportion of the carbon credits sequestered from post-1989 forest areas in accordance with New Zealand Emission Trading Scheme Regulations. A proportion of carbon sequestered from Post-1989 areas will have to be surrendered to compensate for the carbon liability generated from harvesting those forest areas. As at 30 June 2023 and similar to 30 June 2022 the value of the potential liability in future years is not known with sufficient certainty to be classified as a Contingent Liability due to the variations in the harvesting schedule, carbon reporting periods and the value of carbon to surrender. (2022 \$nil.) There are no other contingent assets. (2022 \$nil.)

19. LEASE LIABILITY

	As at 2023 \$,000	As at 2022 \$,000
Lease Liability		
Opening balance	473	501
Additions	131	95
Lease repayments	(151)	(141)
Interest charged	11	18
	464	473
Split by:		
Current liability	150	143
Non-current liability	314	330
	464	473

The maturity of the Lease Liability is as follows:	< 1 year	1-2 years	2-3 years	4+years	TOTAL
2023	150	125	110	79	464
2022	142	96	84	151	473

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

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

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

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

(i) Measurement basis

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

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

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

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the

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

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

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

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

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

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

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

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



20. RECONCILIATION OF LIABILITIES FROM FINANCING ACTIVITIES

	Non cash changes					2023 \$'000
	2023 \$'000	Cashflow \$'000	Capitalised Interest \$'000	Foreign Exchange Movement \$'000	Fair Value Changes \$'000	
2023						
Long term borrowings	20,600	15,400	-	-	-	36,000
Derivative financial instruments	1,901	-	-	-	(1,201)	700
Short term derivative financial instruments	1,679	-	-	-	360	2,039
	24,180	15,400	-	-	(841)	38,739

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

21. EVENTS SUBSEQUENT TO BALANCE DATE

No significant events occurred subsequent to balance date. (2022 Nil).

Statement Of Service Performance

For the Year Ended 30 June 2022

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

PERFORMANCE TARGET	ACHIEVEMENT
<p>1a. The Company will achieve a 6% return (or greater) on shareholders' funds measured on a post-tax 3 year rolling average basis</p>	<p>Three year rolling average return on shareholders' funds is 6.4%.</p>
<p>1b. A review of the Company's long term strategic plan will be completed each year, which targets a 6% return (or greater) on shareholders' funds measured on a post-tax 3 year rolling average basis.</p>	<p>Strategy day held on 28 March 2023. The Company's long term strategic plan was reviewed and adopted by the shareholder during the annual budget and statement of intent process. Due to market conditions with challenges in the export real estate and construction sector, the plan incorporates a below target return on shareholders' funds of; 2.6% for the first 3 years measured on a forecast 3 year rolling average basis.</p>
<p>2a. No single customer will have received more than 30% of the Company's annual harvest by volume.</p>	<p>Our largest customer Daiken Southland received 8% of the Company's annual harvest volume.</p>
<p>2b. The percentage of annual supply to the domestic market by volume will be tracked.</p>	<p>Domestic log production was 21.0% by volume. (28.5% last year).</p>
<p>2c. The Company will participate in the New Zealand ETS and may realise returns from the sales of carbon stored in the Company forests in compliance with its Carbon Policy.</p>	<p>The Company continues to participate in the ETS. No Carbon sales were made during the year. The Company was compliant with its Carbon Policy.</p>
<p>3a. The Company's annual harvest volumes as detailed in the strategic plan will be within 30% of projected long term sustainable yield.</p>	<p>The annual harvest from the Company Forest estate during the year was 360,562m³ including billet wood. This is 99.9% of the sustainable yield of 360,708m³. Forecast harvest levels in the long-term strategic plan for the next 3 years are; 350k m³, 349k m³ and 358k m³. All are within +/- 30% of the sustainable yield.</p>
<p>3b. The Company will carry out annual forest inventory to measure and verify forest yield. The number of sample plots measured will be reported.</p>	<p>The Company completed 355 sample plots during the period.</p>
<p>3c. A forest surveillance program will be in place as part of the National Surveillance program to assess the forest estate for pests and diseases.</p>	<p>The City Forests, forest health surveillance program was conducted during the 2022 – 2023 year.</p>

PERFORMANCE TARGET	ACHIEVEMENT
3d. The annual fire plan will be updated and operational by 1 October each fire season.	Fire plan update was completed in September 2022 prior to the start of the fire season.
3e. The Company will actively participate in regional land use and environmental planning processes.	The Company submits on regional planning processes and the National Environmental Standard – Plantation Forestry.
4a. The Company will participate in industry research consortia (via the Forest Levy) to ensure research objectives are in line with Company Strategy and to gain financial leverage to achieve research objectives.	The Company has paid the Forest Growers Levy. Two staff are members of committees (through the Forest Owners Association) which are part of the process of allocating levy research funds. The Company Forest Levy contribution is pooled with industry and Government funds achieving considerable financial leverage enabling significant research to be undertaken.
4b. The implementation of research outcomes into operational management plans will be tracked.	Management plans are updated to reflect current management practices which are informed by research outcomes, i.e. target tree stocking rates per hectare to optimise site carrying capacity.
5a. The Company will maintain supply arrangements with Otago and Southland wood processors provided customers match (or better) alternative supply options.	Otago and Southland wood processors receive supply volumes in accordance with the annual plan. Pricing is negotiated each quarter. Customers have been given the option to decline or reduce supply if they are unable to match returns from alternative supply options (log export).
5b. Annual supply volumes to the three largest wood processors customers will be tracked and reported.	Major wood processors were supplied the following volumes during the period: Pan Pac: 15,661m3 Daiken: 31,212m3
5c. The annual volume of wood supplied for bio-energy uses will be tracked and reported.	Bio-energy supply: 11,571m3
6a. Lost time accident rates for staff and forest contractors will be minimised and not more than 15 lost time accidents per 1,000,000 hours worked.	12 month rolling lost time accident rate for staff and forest contractors was 11.6 lost time injuries per 1,000,000 hours.
6b. The Company will undertake drug and alcohol testing of staff and the contract workforce. The number of random tests and percentage of positive tests will be reported.	91 random tests were conducted during the period. 3.3% of tests were recorded as positive.
6c. Forest Stewardship Council Certification of the Forest Estate will be maintained.	Forest Stewardship Council Certification was maintained following audit in 2022.

PERFORMANCE TARGET	ACHIEVEMENT
<p>6d. The Company will have in place an environmental management system which will include procedures for sustainability monitoring. Results of water sampling and reserve area environmental assessments will be publicly available on the Company's website.</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, soil disturbance and reserve biodiversity monitoring.</p>
<p>6e. The Company will work with partners Doc, University of Otago & contractors to maintain and enhance RT&E species on and around the Company estate. Sponsorship amounts for these activities will be reported annually</p>	<p>Sponsorship of \$60,250 was awarded to Predator Free Dunedin, \$30,000 to Orokonui Eco-Sanctuary, \$6,522 to Tokomairiro High School, \$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>7a. The company will report on the number of National Certificates achieved by its workforce each year.</p>	<p>Company Staff, Contractors and their employees achieved 10 National Certificates during the year.</p>
<p>7b. The Company will engage with its contractors to participate in Modern Apprenticeship programs. The number of apprentices working in Company operations will be reported each year.</p>	<p>At 30 June 2023 one modern apprentice was employed in Company operations.</p>
<p>8a. The Company will maintain a forest access permit system, track and report on recreational use statistics.</p>	<p>Recreation use is monitored through forest access permit issuance. 285 forest access permits were issued during the year.</p>
<p>9a. A continued and measured expansion of the forest estate will be part of Company Strategy. The area of acquired land will be reported annually.</p>	<p>Company has purchased 312.5ha of land during the period.</p>
<p>9b. Consult with the shareholder in a timely manner on DCHL Group strategic or operational matters which could compromise the Council's community outcomes. Any such matters were escalated to the shareholder in a timely manner.</p>	<p>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.</p>
<p>9c. Report to the shareholder within 24 hours of the Board becoming aware of any substantive matter, including any matter likely to generate media coverage.</p>	<p>A number of media interactions occurred throughout the period and the shareholder and board were communicated to within 24 hours informing them of the matter.</p>
<p>9d. The Company will report on the proportion of its workforce (staff) receiving the living wage.</p>	<p>All staff remuneration is greater than the living wage.</p>
<p>9e. Measure and publicly report our Greenhouse Gas (GHG) emissions, and progress towards our emissions and waste reduction strategies and targets, in our annual report.</p>	<p>The carbon emission and waste reduction strategy (2022/2030) has been established. While the strategy does not contain any quantification targets for FY2023, progress is being made towards achieving the strategy.</p>

	PERFORMANCE TARGET	ACHIEVEMENT
9f.	The company will develop a waste reduction strategy and associated targets for the 2022/2023 financial year.	A waste reduction strategy has been developed in draft and incorporated into the 2022/2023 Statement of Intent.

	FORECASTS	\$'000	ACTUAL	\$'000
10a	EBITDA	11,700	EBITDA	10,366
10b	Profit after income tax	7,613	Profit after income tax	5,463
10c	Shareholders' funds to total assets	70.5%	Shareholders' funds to total assets	69.4%
10d	Dividend	3,600	Dividend Distribution	3,600
10e	Capital Distribution	10,000	Capital Distribution	10,000
10f	Operating cashflow	6,000	Operating cashflow	6,258
10g	Capex	7,400	Capex	5,378
10g	Term debt	32,900	Term debt	36,000

Independent Auditor's Report

To the readers of City Forests Limited's financial statements and statement of service performance for the year ended 30 June 2023

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

Opinion

We have audited:

- the financial statements of the company on pages 28 to 59, that comprise the statement of financial position as at 30 June 2023, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information; and
- the statement of service performance of the company on pages 60 to 63.

In our opinion:

- the financial statements of the company:
 - present fairly, in all material respects:
 - its financial position as at 30 June 2023; and
 - its financial performance and cash flows for the year then ended; and
 - comply with generally accepted accounting practice in New Zealand in accordance with New Zealand's equivalent to International Financial Reporting Standards; and
- the statement of service performance of the company presents fairly, in all material respects, the company's actual performance compared against the performance targets and other measures by which performance was judged in relation to the company's objectives for the year ended 30 June 2023.

Our audit was completed on 20 September 2023. This is the date at which our opinion is expressed.

The basis for our opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and our responsibilities relating to the financial statements and the statement of service performance, we comment on other information, and we explain our independence.

Basis for our opinion

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

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

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

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

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

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

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

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

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

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

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

For the performance targets reported in the statement of service performance, our procedures were limited to checking that the information agreed to the company's statement of intent.

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

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

- We identify and assess the risks of material misstatement of the financial statements and the statement of service performance, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- We evaluate the appropriateness of the reported statement of service performance within the company's framework for reporting its performance.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board of Directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists we are required to draw attention in our auditor's report to the related disclosures in the financial statements and the statement of service performance or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the financial statements and the statement of service performance, including the disclosures, and whether the financial statements and the statement of service performance represent the underlying transactions and events in a manner that achieves fair presentation.

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

Our responsibilities arise from the Public Audit Act 2001.

Other information

The Board of Directors is responsible for the other information. The other information comprises the information included on pages 1 to 27, but does not include the financial statements and the statement of service performance, and our auditor's report thereon.

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

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

Independence

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

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



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





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

plant trees

