

CITY FORESTS LIMITED

CITY FORESTS LIMITED

**ANNUAL REPORT
FOR THE YEAR
ENDED
30 JUNE 2014**

CITY FORESTS LIMITED

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CITY FORESTS LIMITED

COMPANY PARTICULARS

As at 30 June 2014

DIRECTORS

R D Liddell (Chairman) - B.Com., C.A. (P.P.), A.C.I.S., A.F.Inst.D.
(Retired 1st October 2013)

M O Coburn - F.N.Z.I.M., A.F.Inst.D.
(Retired 29th October 2013)

J F Gallaher – A.F.A., C.A., B Com., M.Inst.D. (Appointed 1.11.12)
(Appointed Chairman 1st October 2013)

T D Allison – B.Com., B.A., C.A., M.Inst.D. (Appointed 1.11.12)

T J Mepham – B.Com., C.A., M.Inst.D. (Appointed 1.12.13)

M C Horne – L.L.B., C.A. (P.P.), B.Com., M.Inst.D. (Appointed 9.12.13)

CHIEF EXECUTIVE OFFICER

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

REGISTERED OFFICE

31 Stafford Street
Dunedin
New Zealand

BANKERS

Westpac Banking Corporation

SOLICITORS

Gallaway Cook Allan

FINANCIAL ADVISERS

Deloitte

AUDITOR

Audit New Zealand on behalf of the Controller and Auditor General

CITY FORESTS LIMITED

DIRECTORS' REPORT **For the Year Ended 30 June 2014**

The Directors of City Forests Limited are pleased to present their report on the activities of the Company for the year ended 30 June 2014.

Principal Activities of the Company

This report covers the financial year 1 July 2013 to 30 June 2014.

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 2014

| | \$000 |
|--|--------------|
| Operating Surplus before Income Tax and Impairment | 12,921 |
| Less Impairment | 1,500 |
| Less Income Tax | 3,130 |
| Net Surplus for the Year | <u>8,291</u> |

State of Affairs

The Directors are very pleased with the results achieved by the Company, having regard to the favourable trading conditions experienced during the year, and believe that the state of affairs of the Company is satisfactory.

Dividends

The Directors declared and paid a total of \$5,100,000 in Dividends during the year made up of;

- an interim un-imputed dividend of \$1,300,000 in December 2013,
- a final un-imputed dividend of \$1,300,000 in June 2014,
- a special un-imputed dividend of \$2,500,000 in June 2014.

Donations

There have been donations made of \$10,600 during the year.

Changes in Accounting Policies

There have been no changes in accounting policy.

CITY FORESTS LIMITED

DIRECTORS' REPORT Cont'd/... **For the Year Ended 30 June 2014**

Reserves

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

| | \$'000 |
|-----------------------------|---------------|
| To Forestry Reserve | 1,131 |
| To Retained Earnings | 2,060 |
| To Hedging Reserve | 1,117 |
| To Land Revaluation Reserve | (101) |

Review of Operations

This review of operations and the accompanying financial reports cover the 1 July 2013 to 30 June 2014 financial year.

During the year the Company has operated in a climate of improving operational returns for the forest industry which peaked in May – June 2014. There has been solid economic activity in New Zealand and the United States and continued growth across the Asia-Pacific region. This has led to strong log demand from our domestic sawmill customers and top quartile returns from the export log market. This environment has delivered a strong financial performance for the Company which recorded an \$8.29 million profit after income tax and impairment charges. Cash flows from operating activities have funded a record \$5.1 million paid in shareholder dividends and \$3.517 million of reinvestment in the forest asset through acquisition, re-planting and silviculture operations.

Export log volumes to our principal South Korean customers have been steady during the year in a climate of increasing market prices driven by Chinese demand. The key profitability drivers of market price, exchange rate and shipping costs, although variable, have improved steadily throughout the year to levels that provide top quartile returns from harvesting. This has led to increasing demand and competition for export logs purchased “at wharf gate” by a number of log exporting companies based at Port Chalmers. This has provided the Company with an opportunity to diversify and optimise export log sales to maximise returns from the forest estate.

Domestic log sales have been strong during the year as prices increased to compete with log export returns. High log prices combined with exchange rate and timber market factors have created a climate of difficult financial conditions for domestic processing customers. This led to the high profile receivership of Southern Cross Forest Products, Otago’s largest wood processing company. City Forests was not financially impacted by the receivership and increased log supplies during the receivership period to maintain employment. However, the subsequent closure of Southern Cross Mills by the receivers has changed regional log market dynamics, at least in the short term, in favour of log export.

Overall the Company has marginally increased the proportion of its annual harvest that is sold to domestic customers to 46%. (45% previous year).

CITY FORESTS LIMITED

DIRECTORS' REPORT Cont'd/... **For the Year Ended 30 June 2014**

The Milburn Processing Plant has operated the full year under lease agreement with Craigpine Timber Limited. The lease has operated smoothly and the Milburn Plant has returned a small operational profit for the year. Directors have carried out further assessment of the Milburn Processing Plants value taking into account the Southern Cross receivership and the climate of generally poor returns from the wood processing sector and agreed to further impair the plant value by \$1.5 million. Directors believe this is a conservative but prudent approach given current market conditions.

During the year the Company purchased and surrendered ERU carbon credits at favourable prices to withdraw the majority of its post 1989 forests from the New Zealand Emissions Trading Scheme. The purpose of this transaction was to reduce future harvest liabilities. The Company intends to re-register these post-1989 forest areas in the coming financial year. The Company has retained its higher value NZU carbon credits and has recorded a gain in the value of these credits as the market price increased throughout the year. No other significant Carbon transactions occurred during the year.

Change in value of the forest asset has once again been a contributor to the Company's financial performance. The discounted cash flow valuation is influenced by a number of factors including market prices, production costs, forest harvest, forest growth, carbon valuation and discount rate interacting to deliver a gain of \$1.57 million. Increases in the market price of logs had the most significant positive impact on the valuation although moderated by the end of year export log price correction and the current to long term trend price averaging.

Forest infrastructure, replanting and tending operations have continued to add value to the forest asset. The Company maintains its network of roads to a high standard, replants all harvest areas and continues to prune for clear wood production on high productivity sites. Two new land acquisitions occurred during the year.

Management is focused on delivering strong returns to our shareholder and has positioned the company well in terms of production, logistical and international marketing capacity as well as carbon trading ability, to take advantage of the opportunities available to the forest industry.

Health and Safety

The Board of the Company has always been committed to achieving best practice in Health and Safety performance. Board resources allocated to governance and oversight of this key operational area has been further increased during the year.

The Company recorded a Lost Time Injury Frequency (LTIF) of 26.5 lost time injuries per 1 million hours worked. (14.5 previous year) One serious harm chainsaw injury, two slip and trip injuries and a bruised leg injury contributed to this LTIF statistic which encompasses all Company staff and contract forest operations employees. During the year the Company significantly improved our health and safety systems in the areas of log transport, tree felling and breaking out, improved our internal safety audit systems and carried out drug and alcohol training and testing.

CITY FORESTS LIMITED

DIRECTORS' REPORT Cont'd/... **For the Year Ended 30 June 2014**

Developments

During the year the Company undertook incremental expansion of the forest estate by acquiring two forest blocks adding a total of 204 ha to the Company's Tokoiti Forest area. Both blocks are contiguous with existing forest areas. Operationally the Company has been focused on increasing the productivity of our forest lands, increasing the level of mechanisation in our harvesting operations and has put considerable work into further developing our health and safety systems.

Forest Valuation

The value of the Company's forests increased from \$108.6 million at 30 June 2013 to \$111.1 million at 30 June 2014. This net \$2.5 million increase was attributable to a combination of factors, primarily;

- The addition of two forest acquisitions.
- A 1.57 million gain in crop value driven by;
 - Positive forest growth and maturity in the forest asset, offset by harvesting removals.
 - Recent market price increases positively impacting the 5 year current to long term trend price curve. Although moderated by this methodology and the year-end export log price correction, current log prices had a significant positive impact on forest value.
 - Operational savings in harvesting and forest access costs increasing the forest value.

Due to the current low value of carbon, no future carbon income has been included in this year's forest valuation. The discount rate applied remained static at 7%.

Sustainable Forest Management

The Company continues to demonstrate its commitment to responsible and sustainable management of its forest estates. During the year an audit of its management practices to the Forest Stewardship Council Certification Standard was completed successfully.

Change of Directors

Mr John Gallaher was appointed Chairman following the retirement of Mr Ross Liddell in September 2013.

Mr Liddell had been the Chairman of the Company since his appointment to the Board in November 2000 and his leadership of the Board over that time is acknowledged. During his tenure Mr Liddell oversaw the substantial acquisition of the Silverpeaks Forest in 2002, the takeover of the Opio Forestry Fund in 2006 and the increase in Company annual harvest from 62,000 m³ in 2000 to 302,000 m³ in 2013. Mr Liddell left the Company in a solid state of affairs with a forward strategy in place. Mr Liddell has since passed away and a road in Tokoiti Forest (Opio block) has been named to permanently record his significant contribution to the Company.

Mr Mike Coburn retired by rotation in October 2013 having served on the board since September 2003. Mr Coburn made a substantial contribution to the Company particularly in the areas of contract negotiation and land management.

CITY FORESTS LIMITED

DIRECTORS' REPORT Cont'd/... **For the Year Ended 30 June 2014**

Mr Mike Horne and Mr Tim Mephram were appointed as Directors in December 2013.

Outlook

The outlook for the 2015 financial year is to deliver a positive result albeit reduced from 2014 due to the price correction in international log markets. The Company's financial performance is driven by export and domestic log sales that have been partially underpinned by foreign exchange hedging, fixed price international shipping and strong customer relationships. The net result of these activities is the forecast provision of \$3.5 million normal dividend in the 2015 year.

Looking to the longer term future we are optimistic that City Forests and the New Zealand Forest Industry have entered a period of generally more favourable returns in international log markets. This is driven by strong demand for wood products and other commodities by China and other Asian economies experiencing substantial economic growth. As experienced in the past it is expected that economic volatility will cause these returns to remain cyclic in nature throughout each financial year.

This period of opportunity coincides with the Company's annual harvest reaching long term sustainable levels of approximately 270,000 m³ per annum. The Company is well placed with a mature, harvest ready forest and proven export capability to make the most of Asian economic growth.

Carbon revenues may once again become a contributor to Company performance should carbon prices recover from current levels although this has not been included in financial forecasts. Carbon revenues provide financial recognition of the company's wider positive environmental impact.

The forecast trading conditions are set to deliver sustainable dividends underpinned by solid profits and positive cashflow over the next 5 years.

Social and Environmental Contributions [Triple Bottom Line]

City Forests Limited has continued its Forest Stewardship Council Certification during the year and is making steady progress on improving its knowledge and management of a number of environmental and cultural issues within its forest estate. This includes work in progress identifying rare, threatened or endangered flora and fauna.

The community continues to benefit from the significant network of walking and cycle tracks, picnic areas and other public amenities maintained by City Forests Limited. The Company continues to encourage the public use of its forests in a controlled fashion with numerous recreational activities occurring during the year.

Our financial contribution to the community has been modest and a number of donations totalling \$10,600 have been made to various community groups and charities. Included in this is non cash donations of firewood have been made to some clubs and charities.

During the year the Company's forests stored carbon balance increased by approximately 11,105 tonnes of Carbon, when compared to 30 June 2013. Approximately 3,392 tonnes of carbon were emitted from operations giving a net carbon positive footprint for the year of 7,713 tonnes of Carbon.

CITY FORESTS LIMITED

DIRECTORS' REPORT Cont'd/... **For the Year Ended 30 June 2014**

Financial Statements

The audited financial statements for the year ended 30 June 2014 are attached to this report.

Directors' Interests in Contracts

Refer to Directors' Declarations of Interest section on pages 12 to 13 and the Related Parties Transactions note 33.

Auditors

The Controller and Auditor General have contracted the audit to Audit New Zealand. Auditor's remuneration is set out in Note 5.

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

| | 130 - 140 | 150 - 160 | 170-180 | 270 - 280 |
|---------------------|-----------|-----------|---------|-----------|
| Number of Employees | 1 | 1 | 1 | 1 |

CITY FORESTS LIMITED

DIRECTORS' REPORT Cont'd/... For the Year Ended 30 June 2014

Information on the Directors of City Forests Limited

| Director | Responsibilities | Remuneration \$000 | |
|---------------------|---|--------------------|------|
| | | 2014 | 2013 |
| Ross D Liddell | Chairman, Remunerations Sub Committee (Retired 1 st October 2013) | 13 | 48 |
| Norman G Evans | Non-Executive Director (Retired 31 st October 2012) | - | 7 |
| Michael O Coburn | Non-Executive Director (Retired 29 th October 2013) | 9 | 27 |
| Stuart J McLauchlan | Non-Executive Director (Retired 31 st October 2012) | - | 7 |
| John F Gallaher | Non-Executive Director (Appointed 1 st November 2012) Chairman Remunerations Sub Committee (Appointed 1 st October 2013) | 45 | 19 |
| Tony D Allison | Non-Executive Director (Appointed 1 st November 2012) | 27 | 19 |
| Tim J Mephram | Non-Executive Director (Appointed 1 st December 2013) | 16 | - |
| Michael C Horne | Non-Executive Director (Appointed 9 th December 2013) | 16 | - |

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.

CITY FORESTS LIMITED

DIRECTORS' REPORT Cont'd/... **For the Year Ended 30 June 2014**

Staff

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

Events Subsequent to Balance Date

No significant events have occurred subsequent to balance date.

On behalf of the Board of Directors:

J F Gallaher
Chairman



Date 26/8/2014

T D Allison
Director



Date 26/8/2014

CITY FORESTS LIMITED

Information on the Directors of City Forests Limited

Director & Qualifications

Ross D Liddell (Chairman)

B.Com., C.A. (P.P.), A.C.I.S., A.F.Inst.D.

Date appointed November 2000

Retired 1st October 2013

John Gallaher (Chairman appointed October 2013)

A.F.A., C.A., B Com., M.Inst.D

Date appointed 1st November 2012

Declarations of Interest

Chairman, Browns Barkly Limited
Chairman, Dunedin City Treasury Limited
Chairman, James Maurice Properties Limited
Chairman, Palmer & Son Limited
Chairman, Palmers Mechanical Limited
Chairman, Palmer M H Limited
Chairman, Viblock Limited
Chairman, Victory Lime 2000 Limited
Director, AB Lime Limited

Director, BasketBall NZ Development Limited
Director, BasketBall NZ Limited
Director, Gamma Investments Limited
Director, Mastah Investments Limited
Director, Fund Managers Otago Limited
Director, Granwood Holdings Limited
Director, NZ Catholic Education Office Limited
Director, NZCEO Finance Limited
Chairman, TracPlus Global Limited
Director, TracPlus Security Nominees Limited
Director, Otago Rescue Helicopter Limited
Director, Otago Southland Diocesan Board of
Management
Director, CIANZ
Chairman, Tui Motu Foundation Inc
Trustee, William Sheriff Charitable Trust
Trustee, Otago Rescue Helicopter Trust
Chairman, United Way NZ Inc
Member, FIBA Finance Commission
Director, Mercy Hospital Dunedin Ltd

CITY FORESTS LIMITED

Director & Qualifications

Declarations of Interest

Michael O Coburn (Non-Executive Director)

F.N.Z.I.M., A.F.Inst.D.

Director, Arthur Barnett Limited
Director, Lake Hayes Estate Limited
Director, New Zealand Land Fund Limited
Director, Jack Tewa Foundation
Director, New Zealand Aquifer Limited
Shareholder (via a trust), Locations Realty Queenstown Limited

Date appointed September 2003

Retired 29th October 2013

Tony Allison (Non-Executive Director)

B.Com., B.A., C.A., M.Inst.D.

Director, AA Cleaners (Otago) Limited
Director, Otago Southland Employers Association
Member, Dunedin International Airport Limited

Date appointed 1st November 2012

Mr Tim J Mepham (Non-Executive Director)

C.A., B Com., M.Inst.D.

Deputy Chair, Presbyterian Support Otago
Treasurer, Yellow Eyed Penguin Trust
Director, Powerhouse Wind Ltd
Principal, Rautaki Advisory

Date appointed December 2013

Mr Michael C Horne (Non-Executive Director)

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

Director, Best View Ltd
Director, Ellis Fibre NZ Ltd
Director, Escea International Ltd
Director, Escea Ltd
Director, Victory Lime 2000 Ltd
Director, McMahon Investments Ltd
Director, Hunterfields Investments Ltd
Director, James Maurice Properties Ltd
Director, Prospectus Nominees
Director, Palmers Mechanical Ltd
Director, Prospectus Nominees Services Ltd
Director, Ellis Fibre Global Ltd
Director, Deloitte Ltd
Director, Palmer MH Ltd
Director, Viblock Ltd
Director, Cancer Society Otago Southland Inc
Director, Rawhiti Road Investments Limited

Date appointed December 2013

CITY FORESTS LIMITED

TREND STATEMENT

| | Year Ended 30 Jun 14 | Year Ended 30 Jun 13 | Year Ended 30 Jun 12 | Year Ended 30 Jun 11 | Year Ended 30 Jun 10 |
|---|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|
| <u>FINANCIAL PERFORMANCE</u> | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Domestic Revenue | 12,687 | 13,590 | 8,652 | 6,503 | 6,263 |
| Export Revenue | 22,108 | 18,983 | 30,869 | 35,451 | 33,255 |
| Other Revenue | 2,385 | 2,652 | 2,703 | 3,912 | 2,118 |
| New Zealand Carbon Credits | 2,694 | 6,172 | 2,316 | 6,850 | 3,264 |
| Gain in fair value of forestry asset | 1,571 | 7,046 | 3,503 | 738 | 6,174 |
| Total Revenue | 41,445 | 48,443 | 48,043 | 53,454 | 51,074 |
| Percentage Increase (Annualised) | (14.4%) | (0.8%) | (10.1%) | 4.7% | 50.7% |
| Inventory Movement | (308) | (479) | (820) | 695 | (182) |
| Total Expenses | 28,216 | 29,514 | 41,705 | 42,867 | 41,577 |
| Percentage Increase | (4.4%) | (29.2%) | (2.7%) | 3.1% | 23.3% |
| Operating Surplus before Taxation and Impairment Charges | 12,921 | 18,450 | 5,518 | 11,282 | 9,315 |
| Impairment Charges | 1,500 | - | 3,000 | - | - |
| Income Tax | 3,130 | 3,836 | 641 | 1,748 | 2,201 |
| Surplus after Income Tax and Impairment Charges | 8,291 | 14,614 | 1,877 | 9,534 | 7,114 |
| Share of Retained Surplus in Associate Company | - | - | - | - | - |
| Total Surplus after Taxation | 8,291 | 14,614 | 1,877 | 9,534 | 7,114 |
| <u>SHAREHOLDERS' FUNDS</u> | | | | | |
| Shareholders Funds | 95,932 | 91,725 | 81,938 | 83,838 | 75,961 |
| Operating Cash flow | 8,278 | 17,263 | 5,130 | 13,266 | 5,397 |
| Dividends Paid - Normal | 2,600 | 2,400 | 2,200 | 2,000 | 1,850 |
| - Special | 2,500 | 2,000 | - | - | - |
| Value of Forest | 111,093 | 108,589 | 103,528 | 100,335 | 99,840 |
| Surplus after tax to shareholders funds | 8.64% | 15.93% | 2.29% | 11.93% | 9.40% |
| Proprietorship Ratio | 63.34% | 61.89% | 56.10% | 56.69% | 51.32% |
| Net Forest Revaluation | 1,131 | 5,073 | 2,522 | 531 | 4,322 |
| Net Land Revaluation | (102) | - | (505) | (10) | - |
| <u>FOREST STATISTICS</u> | <u>(whole no's)</u> | | | | |
| Forest harvested (m ³) | 284,373 | 302,096 | 266,281 | 263,530 | 241,961 |
| Volume traded (m ³) | 2,583 | 1,917 | 27,151 | 20,564 | 22,397 |
| Forest planted (ha) | 602 | 520 | 732 | 811 | 349 |
| Total forest (ha) | 16,326 | 16,114 | 16,129 | 16,011 | 15,997 |
| Forest purchased (ha) | 204 | - | - | - | - |

CITY FORESTS LTD

Statement of Comprehensive Income For the Year Ended 30 June 2014

| | Note | Year to 30 June 2014 \$'000 | Year to 30 June 2013 \$'000 |
|--|------|--------------------------------------|--------------------------------------|
| Revenue | 3 | 37,657 | 38,291 |
| Financial income | 4 | 1,737 | 1,984 |
| Gain/(loss) in fair value of forestry asset | 28 | 1,571 | 7,046 |
| Total revenue | | 40,965 | 47,321 |
| Inventory movement | | (193) | 289 |
| <i>Less expenses</i> | | | |
| Contractors | | 12,035 | 11,977 |
| Depreciation and amortisation expense | | 325 | 302 |
| Directors fees | | 125 | 127 |
| Employee expenses | | 1,193 | 1,320 |
| Financial expenses | 6 | 1,345 | 1,338 |
| Other expenses | 5 | 12,953 | 14,115 |
| Total expenses | | 27,976 | 29,179 |
| Profit before tax | | 12,796 | 18,431 |
| Income tax expense | 9&32 | 3,515 | 3,831 |
| Net Profit for the Year from continued operations | | 9,281 | 14,600 |
| Discontinued operations | 32 | (990) | 14 |
| NET PROFIT/(LOSS) AFTER TAX | | 8,291 | 14,614 |
| Other comprehensive income | | | |
| Gains/(loss) on cash flow hedges taken to equity | | 1,551 | (594) |
| Tax effect of cash flow hedges taken to equity | | (434) | 167 |
| Increase/(decrease) in land revaluation | | (101) | - |
| Other comprehensive income for the year | | 1,016 | (427) |
| Total Comprehensive Income for the Year | | 9,307 | 14,187 |

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

CITY FORESTS LTD

Statement of Changes in Equity For the Year Ended 30 June 2014

| | Year to 30 June 2014 \$'000 | Year to 30 June 2013 \$'000 |
|---|--------------------------------------|--------------------------------------|
| Equity at beginning of year | 91,725 | 81,938 |
| Total comprehensive income for the year | 9,307 | 14,187 |
| Distribution to owners | | |
| Dividends | 8 (5,100) | (4,400) |
| Equity at end of year | 95,932 | 91,725 |

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

CITY FORESTS LTD

Balance Sheet

As at 30 June 2014

| | | As at 30 June 2014 \$'000 | As at 30 June 2013 \$'000 |
|--|----|------------------------------------|------------------------------------|
| Equity | | | |
| Share Capital | 10 | 25,691 | 25,691 |
| Forestry reserve | 11 | 47,131 | 46,000 |
| Land revaluation reserve | 11 | 14,869 | 14,970 |
| Hedging reserve | 11 | 462 | (655) |
| Retained earnings | 12 | 7,779 | 5,719 |
| | | | |
| Total Equity | | 95,932 | 91,725 |
| Current Liabilities | | | |
| Trade and other payables | 13 | 2,364 | 1,303 |
| Other current liabilities | 15 | 290 | 353 |
| Employee Provisions | 16 | 110 | 120 |
| Derivative financial instruments | 14 | 783 | 1,293 |
| Current portion of term borrowings | 17 | 1,686 | 6,078 |
| Provision for taxation | | 454 | 611 |
| | | | |
| Total current liabilities | | 5,687 | 9,758 |
| Non-Current Liabilities | | | |
| Derivative financial instruments | 14 | - | 288 |
| Term borrowings | 17 | 21,115 | 18,973 |
| Other liabilities | 15 | 320 | 320 |
| Deferred tax liability | 18 | 28,403 | 27,135 |
| | | | |
| Total non-current liabilities | | 49,838 | 46,716 |
| | | | |
| Total Liabilities | | 55,525 | 56,474 |
| | | | |
| TOTAL EQUITY PLUS LIABILITIES | | 151,457 | 148,199 |
| | | | |

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

CITY FORESTS LTD

Balance Sheet Cont'd/.... As at 30 June 2014

| | | As at 30 June 2014 \$'000 | As at 30 June 2013 \$'000 |
|--|----|------------------------------------|------------------------------------|
| Current Assets | | | |
| Cash and cash equivalents | 22 | 203 | 3,262 |
| Trade and other receivables | 23 | 3,488 | 1,447 |
| Derivative financial instruments | 14 | 888 | 603 |
| Inventories | 25 | 587 | 896 |
| Prepayments | | 402 | 195 |
| Other current assets | 24 | 158 | 56 |
| Intangibles - New Zealand carbon credits | 30 | 3,079 | 386 |
| Total current assets | | 8,805 | 6,845 |
| Non-Current Assets | | | |
| Derivative financial instruments | 14 | 531 | 67 |
| Property, plant and equipment | 29 | 30,943 | 32,339 |
| Forestry assets | 28 | 111,093 | 108,589 |
| Investments | 26 | 1 | 309 |
| Intangibles – computer software | 27 | 84 | 50 |
| Total non-current assets | | 142,652 | 141,354 |
| TOTAL ASSETS | | 151,457 | 148,199 |

For and on behalf of the Board of Directors

J F Gallaher
Chairman

T D Allison
Director



Date 26/8/2014



Date 26/8/2014

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

CITY FORESTS LTD

Statement of Cash Flows For the Year Ended 30 June 2014

| | Note | Year to 30 June 2014 \$'000 | Year to 30 June 2013 \$'000 |
|--|-----------|--------------------------------------|--------------------------------------|
| Cash Flows from Operating Activities | | | |
| <i>Cash was provided from</i> | | | |
| Receipts from customers | | 33,393 | 43,147 |
| Interest received | | 60 | 22 |
| Dividends from other investments | | - | 200 |
| Effect of exchange rate changes | | 1,679 | 1,757 |
| | | 35,132 | 45,126 |
| <i>Cash was disbursed to</i> | | | |
| Payments to suppliers and employees | | 23,488 | 25,740 |
| Interest paid | | 915 | 1,142 |
| Income Tax | | 1,850 | 820 |
| Subvention payments | | 601 | 161 |
| | | 26,854 | 27,863 |
| Net Cash Inflows/(Outflows) from Operating Activities | 31 | 8,278 | 17,263 |
| Cash Flows from Investing Activities | | | |
| <i>Cash was provided from</i> | | | |
| Proceeds from investments | | 100 | - |
| Sale of property, plant and equipment | | 16 | 40 |
| | | 116 | 40 |
| <i>Cash was disbursed to</i> | | | |
| Purchase of property, plant and equipment | | 682 | 151 |
| Purchase of Forest Assets – Cost of bush | | 2,835 | 1,433 |
| | | 3,517 | 1,584 |
| Net Cash Inflows/(Outflows) from Investing Activities | | (3,401) | (1,544) |

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

CITY FORESTS LTD

Statement of Cash Flows Cont'd/.... For the Year Ended 30 June 2014

| | Year to 30 June 2014 \$'000 | Year to 30 June 2013 \$'000 |
|--|--------------------------------------|--------------------------------------|
| Cash Flows from Financing Activities | | |
| <i>Cash was provided from</i> | | |
| Proceeds from borrowings | 11,028 | 9,793 |
| | <u>11,028</u> | <u>9,793</u> |
| <i>Cash was disbursed to</i> | | |
| Repayment of borrowings | 13,864 | 18,861 |
| Dividends paid | 5,100 | 4,400 |
| | <u>18,964</u> | <u>23,261</u> |
| Net Cash Inflows / (Outflows) from Financing Activities | <u>(7,936)</u> | <u>(13,468)</u> |
| Net Increase / (Decrease) in Cash Held | (3,059) | 2,251 |
| Cash and short term deposits at the beginning of the year | <u>3,262</u> | <u>1,011</u> |
| CASH AND SHORT TERM DEPOSITS AT THE END OF THE YEAR | <u>203</u> | <u>3,262</u> |
| Composition of Cash | | |
| Cash and short term deposits | <u>203</u> | <u>3,262</u> |

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

CITY FORESTS LIMITED

Notes to the Financial Statements For the Year Ended 30 June 2014

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 by Dunedin City Holdings Limited. Dunedin City Holdings Limited is wholly owned by Dunedin City Council.

The registered address of the company is 31 Stafford Street, Dunedin.

City Forests Limited is a profit orientated entity.

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

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 26th August 2014.

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.

The accounting policies set out below have been applied consistently to all years in these financial statements.

Associate Entities

The company has used deemed cost less writedown for the value of the shares held in Otago Chipmill Limited.

CITY FORESTS LIMITED

Notes to the Financial Statements Cont'd/.... **For the Year Ended 30 June 2014**

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 below.

Note 28 provides information about the forestry assets and the relevant assumptions in determining the value.

Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and GST.

Revenue from services rendered is recognised when it is probable that the economic benefits associated with the transaction will flow to the entity. The stage of completion at balance date is assessed based on the value of services performed to date as a percentage of the total services to be performed.

Sales of goods are recognised when significant risks and rewards of owning the goods are transferred to the buyer, when the revenue can be measured reliably and when management effectively ceases involvement or control.

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.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Company As Lessor

Amounts due from lessees under finance leases are recorded as receivables at the amount of the company's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the company's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

CITY FORESTS LIMITED

Notes to the Financial Statements Cont'd/.... For the Year Ended 30 June 2014

The Company As Lessee

Assets held under finance leases are recognised as assets of the company at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability.

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease.

Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

Foreign 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 below for details of the company's accounting policies in respect of such derivative financial instruments).

Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in the statement of comprehensive income in the year in which they are incurred, with the exception of the Ministry of Forestry loans.

Government Loans

Forestry term liabilities are Ministry of Primary Industries Repayable Loans. Interest is calculated six monthly on the repayable loans. The company is repaying these loans over a 10 year period commencing 1st January 2012.

CITY FORESTS LIMITED

Notes to the Financial Statements Cont'd/.... For the Year Ended 30 June 2014

Employee Entitlements

Entitlements to salary and wages and annual leave are recognised when they accrue to employees. This includes the estimated liability for salaries and wages and annual leave as a result of services rendered by employees up to balance date at current rates of pay.

Entitlements to long service leave and retirement gratuities are calculated on an actuarial basis and are based on the reasonable likelihood that they will be earned by employees and paid by the company.

The company recognises a liability for sick leave to the extent that absences in the coming year are expected to be greater than the sick leave entitlements earned in the coming year. The calculation is based on the value of excess sick leave taken within the previous twelve months.

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.

Taxation

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 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.

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, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

CITY FORESTS LIMITED

Notes to the Financial Statements Cont'd/.... For the Year Ended 30 June 2014

Property, Plant and Equipment

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 Quotable Value.

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 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:

| | <u>Rate</u> | <u>Method</u> |
|-----------------------|-------------|-------------------|
| • Freehold Buildings | 2% - 3% | 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 |

CITY FORESTS LIMITED

Notes to the Financial Statements Cont'd/.... For the Year Ended 30 June 2014

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 in the year the item is derecognised.

Forests

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 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.

Research and Development Expenditure

Expenditure on research activities is recognised as an expense in the year in which it is incurred.

Impairment of assets excluding goodwill

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.

CITY FORESTS LIMITED

Notes to the Financial Statements Cont'd/.... **For the Year Ended 30 June 2014**

Impairment of assets excluding goodwill Cont'd/....

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.
- Wood processing inventories
Products which as a result of processing are valued at lower of cost or net realisable value.
- 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.

Financial Instruments

Financial assets and financial liabilities are recognised on the company's balance sheet when the company becomes a party to the contractual provisions of the instrument.

Trade and other receivables

Trade and other receivables are subsequently measured at amortised cost using the effective interest method. Gains and losses when the asset is impaired are derecognised or recognised in the statement of comprehensive income.

Investments

Investments are recognised and derecognised on a trade date where a purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at cost, including transaction costs.

Investments in debt and equity securities

Investments in debt and equity securities are financial instruments classified as available for sale and are measured at fair value at balance date. Any resultant gains or losses are recognised in the statement of comprehensive income for the year.

CITY FORESTS LIMITED

Notes to the Financial Statements Cont'd/.... **For the Year Ended 30 June 2014**

Trade and other payables

Trade and other payables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method.

Trade and other receivables

Trade and other receivables are initially measured at fair value and subsequently measured at amortised cost less any allowances for estimated irrecoverable amounts.

Borrowings

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 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.

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.

Derivative financial instruments and hedge accounting

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.

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.

CITY FORESTS LIMITED

Notes to the Financial Statements Cont'd/.... For the Year Ended 30 June 2014

Derivative financial instruments and hedge accounting Cont'd/....

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. 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 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. 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.

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 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 for the year.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not carried at fair value with unrealised gains or losses reported in the statement of comprehensive income.

Carbon credits

Emissions units held are treated as intangible assets, and initially recorded at fair value.

- Fair value is cost in the case of purchased units
- Fair value is initial market value in the case of government granted units
- Emissions unit fair value is marked to market (revalued) annually at 30 June subsequent to initial recognition and bi-annually thereafter
- The difference between initial fair value or previous annual revaluation and disposal or revaluation value of the units is treated as revenue if positive or expense if negative
- Emissions obligations are recognized as a current or future liability depending on the legislated liability period
- Emissions Liability is recorded at the market value of emissions units at the end of the period
- Increases in emissions liabilities at 30 June are treated as expenses and reductions are treated as revenue

CITY FORESTS LIMITED

Notes to the Financial Statements Cont'd/.... For the Year Ended 30 June 2014

Standards and Interpretations effective in the current period

Those with disclosure impact:

The impact of the adoption of the following Standards and Amendments has been to expand the disclosures provided in these financial statements:

The following are the new or revised Standards or Interpretations in issue that are not yet required to be adopted by entities preparing financial statements for periods ending on 30th June 2014.

| New Pronouncement | Effective Date |
|---|-----------------|
| New or revised Standards or Interpretations | |
| <i>Amendments to NZ IFRS 10 Consolidated Financial Statements, NZ IFRS 12 Disclosure of Interests in Other Entities and NZ IAS 27 Separate Financial Statements – Investment Entities</i> | 1 January 2014 |
| <i>NZ IFRIC 21 Levies</i> | 1 January, 2014 |
| <i>NZ IFRS 14 Regulatory Deferral Accounts</i> | 1 January, 2016 |
| <i>NZ IFRS 9 Financial Instruments</i> | 1 January, 2017 |
| <i>NZ IFRS 15 Revenue from Contracts with Customers</i> | 1 January, 2017 |

Those with no impact:

Other standards adopted during the year have not led to any changes in the company's accounting policies with measurement or recognition having impact on the periods as presented in these financial statements.

Provisions

A provision is recognised in the balance sheet when the company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation.

Intangible Assets

Intangible assets acquired separately are reported at cost less accumulated amortisation. Amortisation is charged on a diminishing value basis over their estimated useful lives.

CITY FORESTS LIMITED

Notes to the Financial Statements Cont'd/.... For the Year Ended 30 June 2014

Statement of Cashflows

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

Changes in accounting policies

There have been no changes in accounting policies.

| | As at 30 June 2014 \$'000 | As at 30 June 2013 \$'000 |
|--|------------------------------------|------------------------------------|
| 3. OPERATING REVENUE | | |
| Sales revenue | 34,802 | 31,935 |
| New Zealand carbon credits | 2,694 | 6,172 |
| Gain on sale of property, plant and equipment | 12 | 15 |
| Other revenue | 149 | 169 |
| | <u>37,657</u> | <u>38,291</u> |
| 4. FINANCIAL INCOME | | |
| Interest on other investments | 58 | 24 |
| Dividends / bonus issue | - | 200 |
| Effect of exchange rate gains | 1,679 | 1,757 |
| Movement in commodities | - | 3 |
| | <u>1,737</u> | <u>1,984</u> |
| No interest is earned on impaired or restricted assets | | |
| 5. OTHER EXPENSES | | |
| Audit fees - for audit of financial statements | 33 | 33 |
| Donations | 11 | 8 |
| Loss on sale of property, plant and equipment | 1 | 7 |
| Rental expense on operating leases | 72 | 72 |
| Research expenditure | 117 | 118 |
| Cost of bush applied | 2,486 | 4,132 |
| Shipping costs | 6,183 | 6,151 |
| Other expenses | 4,050 | 3,594 |
| | <u>12,953</u> | <u>14,115</u> |

CITY FORESTS LIMITED

Notes to the Financial Statements Cont'd/.... For the Year Ended 30 June 2014

| | As at 30 June 2014 \$'000 | As at 30 June 2013 \$'000 |
|---|------------------------------------|------------------------------------|
| 6. FINANCIAL EXPENSES | | |
| Movement in commodities | 7 | - |
| Interest - related parties | 911 | 1,093 |
| Facility fees – related parties | 219 | 245 |
| Write down in investment value | 208 | - |
| Total financial expenses | <u>1,345</u> | <u>1,338</u> |
| 7. EARNINGS PER SHARE | | |
| Basic earnings per share is calculated by dividing the net surplus/(deficit) attributable to the shareholder of the company by the weighted average number of ordinary shares on issue during the year | 32.28c | 56.89c |
| Number of shares | | |
| Weighted average number of ordinary shares | 25,690,522 | 25,690,522 |

CITY FORESTS LIMITED

Notes to the Financial Statements Cont'd/.... For the Year Ended 30 June 2014

8. DIVIDENDS

| | As at 30 June 2014 \$'000 | As at 30 June 2013 \$'000 |
|---|------------------------------------|------------------------------------|
| The following dividends were paid by the company: | | |
| Interim dividend - \$0.0506 per share | 1,300 | 1,200 |
| Final dividend - \$0.0506 per share | 1,300 | 1,200 |
| Special dividend – \$0.0973 per share | 2,500 | 2,000 |
| | 5,100 | 4,400 |

9. INCOME TAX

| | | |
|--|---------------|---------------|
| Net profit/(loss) from continued operations | 12,796 | 18,431 |
| Net profit/(loss) from discontinued operations | (1,375) | 19 |
| Profit before income tax | 11,421 | 18,450 |
| Tax thereon at 28% | 3,198 | 5,166 |
| <i>Plus/(less) the Tax Effect of Differences</i> | | |
| Income not assessable for taxation | (137) | (1,317) |
| Expenditure not deductible for taxation | 74 | 2 |
| Under / (over) tax provision in prior years | (5) | 41 |
| Fully imputed dividends | - | (56) |
| Tax effect of differences | (68) | (1,330) |
| Tax expense | 3,130 | 3,836 |
| Tax expense made up as follows: | | |
| Continued operations | 3,515 | 3,831 |
| Discontinued operations | (385) | 5 |
| | 3,130 | 3,836 |
| Effective tax rate | 27.4% | 20.79% |
| <i>Represented by</i> | | |
| Current tax provision | 2,303 | 1,535 |
| Deferred tax provision | 832 | 2,260 |
| Under / (over) tax provision in prior years | (5) | 41 |
| | 3,130 | 3,836 |
| Imputation credits available for use in subsequent periods | 3,245 | 1,550 |

CITY FORESTS LIMITED

Notes to the Financial Statements Cont'd/.... For the Year Ended 30 June 2014

9. INCOME TAX Cont'd/....

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.

| | As at 30 June 2014 \$'000 | As at 30 June 2013 \$'000 |
|---|------------------------------------|------------------------------------|
| 10. EQUITY - Share Capital | | |
| Issued Capital | 25,691 | 25,691 |
| The company has issued 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. | | |
| 11. RESERVES | | |
| <u>Forestry Reserve</u> | | |
| Balance at beginning of the year | 46,000 | 40,927 |
| Transfer from retained earnings | 1,131 | 5,073 |
| Balance at the end of the year | 47,131 | 46,000 |
| <u>Hedging Reserve</u> | | |
| Balance at beginning of the year | (655) | (228) |
| Gain/(loss) in fair value movement in derivatives | 1,117 | (427) |
| Balance at the end of the year | 462 | (655) |
| <u>Land Revaluation Reserve</u> | | |
| Balance at beginning of the year | 14,970 | 14,970 |
| Forestry land revaluations | (101) | - |
| Balance at the end of the year | 14,869 | 14,970 |

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

CITY FORESTS LIMITED

Notes to the Financial Statements Cont'd/.... For the Year Ended 30 June 2014

11. RESERVES Cont'd/....

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 2014 \$'000 | As at 30 June 2013 \$'000 |
|---------------------------------------|------------------------------------|------------------------------------|
| 12. RETAINED EARNINGS | | |
| Balance at the beginning of the year | 5,719 | 578 |
| Net profit/(loss) for the year | 8,291 | 14,614 |
| Dividend distributions | (5,100) | (4,400) |
| Transfer to forestry reserve | (1,131) | (5,073) |
| Balance at the end of the year | <u>7,779</u> | <u>5,719</u> |
| 13. TRADE AND OTHER PAYABLES | | |
| Trade payables | <u>2,364</u> | <u>1,303</u> |
| | <u>2,364</u> | <u>1,303</u> |

The amounts due to customers under construction contracts at 30 June 2014 were \$nil (2013: \$nil).

The Directors consider that the carrying amount of trade payables approximates their fair value.

CITY FORESTS LIMITED

Notes to the Financial Statements Cont'd/.... For the Year Ended 30 June 2014

14. FINANCIAL INSTRUMENTS

| | As at 30 June 2014 \$'000 | As at 30 June 2013 \$'000 |
|----------------------------------|------------------------------------|------------------------------------|
| <u>Financial Assets</u> | | |
| Trade and other receivables | 3,488 | 1,447 |
| Derivative financial instruments | 1,418 | 670 |
| | <u>4,906</u> | <u>2,117</u> |
| <i>Analysed as:</i> | | |
| Current | 4,376 | 2,050 |
| Non-Current | 530 | 67 |
| | <u>4,906</u> | <u>2,117</u> |
| <u>Financial Liabilities</u> | | |
| Trade and other payables | 2,364 | 1,303 |
| Derivative financial instruments | 783 | 1,581 |
| Borrowings | 22,800 | 25,051 |
| | <u>25,947</u> | <u>27,935</u> |
| <i>Analysed as:</i> | | |
| Current | 4,833 | 8,674 |
| Non-Current | 21,114 | 19,261 |
| | <u>25,947</u> | <u>27,935</u> |

Currency derivatives

Currency Risk

The company manages risk associated with exchange rate fluctuations through the use of currency derivatives to hedge significant future export sales. The foreign exchange policy of City Forests Limited allows foreign exchange forward contracts and options in the management of its exchange rate exposures. The instruments purchased are only against the currency in which the exports are sold.

CITY FORESTS LIMITED

Notes to the Financial Statements Cont'd/.... For the Year Ended 30 June 2014

14. FINANCIAL INSTRUMENTS Cont'd/....

At balance sheet date, the total notional amount of outstanding forward foreign exchange contracts to which City Forests Limited is committed are as follows:

| Outstanding Contracts | Average exchange rate | Foreign currency | Contract value | Fair value | Fair value |
|--------------------------|--------------------------|------------------|-----------------|-----------------|-----------------|
| | 2014 | 2014 FC'000 | 2014 NZD'000 | 2014 NZD'000 | 2013 NZD'000 |
| Cashflow hedges | | | | | |
| Sell USD | | | | | |
| Current | 0.757 | 5,400 | 7,132 | 816 | 499 |
| Non current | 0.754 | 5,400 | 7,166 | 530 | (221) |
| Buy USD | | | | | |
| Current | - | - | - | - | - |
| Non current | - | - | - | - | - |
| Sell AUD | | | | | |
| Current | - | - | - | - | - |
| Non current | - | - | - | - | - |
| | | | | 1,346 | 278 |

| 2014 | <1 yr | 1-2 yrs | 2-3 yrs | 3-4 yrs | 4-5 yrs | 5 yrs | Total |
|----------------------------------|-------|---------|---------|---------|---------|--------|--------|
| <u>Financial Assets</u> | | | | | | | |
| Trade and other receivables | 3,488 | - | - | - | - | - | 3,488 |
| Derivative financial instruments | 888 | 354 | 176 | - | - | - | 1,418 |
| | 4,376 | 354 | 176 | - | - | - | 4,906 |
| <u>Financial Liabilities</u> | | | | | | | |
| Trade and other payables | 2,364 | - | - | - | - | - | 2,364 |
| Derivative financial instruments | 783 | - | - | - | - | - | 783 |
| Borrowings | 1,686 | 1,686 | 1,686 | 1,686 | 1,686 | 14,370 | 22,800 |
| | 4,833 | 1,686 | 1,686 | 1,686 | 1,686 | 14,370 | 25,947 |

| 2013 | <1 yr | 1-2 yrs | 2-3 yrs | 3-4 yrs | 4-5 yrs | 5 yrs | Total |
|----------------------------------|-------|---------|---------|---------|---------|--------|--------|
| <u>Financial Assets</u> | | | | | | | |
| Trade and other receivables | 1,447 | - | - | - | - | - | 1,447 |
| Derivative financial instruments | 603 | 67 | - | - | - | - | 670 |
| | 2,050 | 67 | - | - | - | - | 2,117 |
| <u>Financial Liabilities</u> | | | | | | | |
| Trade and other payables | 1,303 | - | - | - | - | - | 1,303 |
| Derivative financial instruments | 1,293 | 132 | 156 | - | - | - | 1,581 |
| Borrowings | 6,078 | 2,294 | 1,686 | 1,686 | 1,686 | 11,621 | 25,051 |
| | 8,674 | 2,426 | 1,842 | 1,686 | 1,686 | 11,621 | 27,935 |

CITY FORESTS LIMITED

Notes to the Financial Statements Cont'd/.... For the Year Ended 30 June 2014

14. FINANCIAL INSTRUMENTS Cont'd/....

Interest Rate Swaps

Credit and Interest Rate Risk

The company uses interest rate swaps to manage its exposure to interest rate movements on its multi-option facility borrowings by swapping a proportion of those borrowings from floating rates to fixed rates. The treasury policy recommends that the level of the fixed interest hedge should be limited to a series of ranges within set debt time periods.

The interest rate agreements are held with independent and high credit quality financial institutions in accordance with group credit policy. The credit risk is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies. The carrying amount of financial assets recorded in the financial statements represents the company's maximum exposure to credit risk.

The notional principal outstanding with regard to the interest rate swaps is:

| | As at 30 June 2014 \$'000 | As at 30 June 2013 \$'000 |
|-------------------------------------|------------------------------------|------------------------------------|
| Maturing in less than one year | - | 5,000 |
| Maturing between one and five years | 10,000 | 5,000 |
| Maturing after five years | 3,000 | 8,000 |
| | <u>13,000</u> | <u>18,000</u> |

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.

CITY FORESTS LIMITED

Notes to the Financial Statements Cont'd/.... For the Year Ended 30 June 2014

14. FINANCIAL INSTRUMENTS Cont'd/....

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 .8986 and against the AUD from the year end rate of .9480.
- A parallel shift of +1% / -1% in the NZD market interest rate from the year end 90 day BBR of 3.54%.

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.

| | Carrying amount | | Interest rate | | Foreign exchange | |
|-------------------------------------|-----------------|---------------|---------------|---------------|------------------|-----------------|
| | \$'000 | | -100bp | +100bp | -10% | +10% |
| | Profit | Equity Profit | Equity Profit | Equity Profit | Equity Profit | Equity Profit |
| <u>Financial Assets</u> | | | | | | |
| <u>Derivatives</u> | | | | | | |
| Currency Hedges – Sell USD | 14,298 | - | - | - | - | 1,335 - (1,093) |
| Other Financial Assets | 3,488 | - | - | - | - | 192 - (157) |
| <u>Financial Liabilities</u> | | | | | | |
| Interest rate swaps | 13,000 | (449) | - | 426 | - | - - |
| Total increase/(decrease) | | (449) | - | 426 | - | 1,527 - (1,250) |

1. Cash and cash equivalents include deposits at call which are floating interest rates. Sensitivity to a 1% movement in rates is \$nil.
2. Accounts receivable within City Forests Limited include \$1.551 million of USD denominated receivables at year end.
3. 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.
4. 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.
5. The carrying value of the derivative has been calculated based on rates on each individual contract.

CITY FORESTS LIMITED

Notes to the Financial Statements Cont'd/.... For the Year Ended 30 June 2014

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).

| | 2014 | | | |
|----------------------------------|------------------|------------------|------------------|------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| | NZ \$'000 | NZ \$'000 | NZ \$'000 | NZ \$'000 |
| Financial assets | | | | |
| Derivative financial assets | - | 1,418 | - | 1,418 |
| New Zealand carbon credits | 3,079 | - | - | 3,079 |
| | 3,079 | 1,418 | | 4,497 |
| Financial liabilities | | | | |
| Derivative financial liabilities | - | 784 | - | 784 |
| | - | 784 | - | 784 |

15. OTHER LIABILITIES

| | As at | As at |
|---|----------------|----------------|
| | 30 June | 30 June |
| | 2014 | 2013 |
| | \$'000 | \$'000 |
| (i) <u>Current Liabilities</u> | | |
| Other current liabilities | 290 | 353 |
| | 290 | 353 |
| (ii) <u>Non-Current Liabilities</u> | | |
| Other non-current liabilities – Ferny Hill land liability | 320 | 320 |
| | 320 | 320 |

CITY FORESTS LIMITED

Notes to the Financial Statements Cont'd/.... For the Year Ended 30 June 2014

| | As at 30 June 2014 \$'000 | As at 30 June 2013 \$'000 |
|--------------------------------------|------------------------------------|------------------------------------|
| 16. EMPLOYEE PROVISIONS | | |
| <u>Current liabilities</u> | | |
| Long service leave | 34 | 28 |
| Annual leave and days in lieu | 76 | 92 |
| Gratuities | - | - |
| | 110 | 120 |
| <u>Long service leave</u> | | |
| Opening balance | 28 | 36 |
| Increase/(decrease) in provision | 6 | (8) |
| Closing balance | 34 | 28 |
| <u>Annual leave and days in-lieu</u> | | |
| Opening balance | 92 | 112 |
| Increase/(decrease) in provision | (16) | (20) |
| Closing balance | 76 | 92 |
| <u>Gratuities</u> | | |
| Opening balance | - | 15 |
| Increase/(decrease) in provision | - | (15) |
| Closing balance | - | - |
| <u>Non-current liabilities</u> | | |
| <u>Gratuities</u> | | |
| Opening balance | - | 20 |
| Increase/(decrease) in provision | - | (20) |
| Closing balance | - | - |
| 17. TERM BORROWINGS (secured) | | |
| Dunedin City Treasury loan facility | 13,850 | 15,000 |
| Forestry loans | 8,951 | 10,051 |
| | 22,801 | 25,051 |

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

The forestry loans are from the Ministry of Primary Industries. They are fixed rate loans secured by registered first mortgage over certain land assets and are covered by repayment insurance. Each loan is associated with an individual stand of trees and is repayable by equal quarterly repayments over the 10 years commencing January 2012. The interest capitalised for the year ended 30 June 2014 was \$586 (2013 \$714).

CITY FORESTS LIMITED

Notes to the Financial Statements Cont'd/.... For the Year Ended 30 June 2014

17. TERM BORROWINGS (secured) Cont'd/...

The repayment period on the term borrowings is as follows:

| | As at 30 June 2014 \$'000 | As at 30 June 2013 \$'000 |
|---------------------------------------|--|--|
| Less than one year | 1,686 | 6,078 |
| Repayable between one to two years | 1,686 | 2,294 |
| Repayable between two to three years | 1,686 | 1,686 |
| Repayable between three to four years | 1,686 | 1,686 |
| Repayable between four to five years | 1,686 | 1,686 |
| Repayable later than five years | 14,369 | 11,621 |
| | <u>22,800</u> | <u>25,051</u> |

The weighted average interest rate for the Dunedin City Treasury Limited loan facility, ranged between 4.75 and 7.53% (2013 4.96 – 7.52%).

The weighted average interest rates for the forestry loans is 6.09%, (2013 6.09%).

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

| | | |
|----------------------------|--------|--------|
| Multi-option note facility | 13,850 | 15,000 |
| Forestry loans | 8,583 | 9,708 |

CITY FORESTS LIMITED

Notes to the Financial Statements Cont'd/.... For the Year Ended 30 June 2014

18. DEFERRED TAX LIABILITIES AND ASSETS

| | 2014 \$'000 | 2014 \$'000 | 2014 \$'000 | 2014 \$'000 | 2014 \$'000 | 2014 \$'000 |
|--|-----------------------------|------------------------|-------------------------|---------------------------------------|------------------------|------------------------|
| | Opening Balance Sheet | Charged To Equity | Charged to Income | Closing Balance Sheet Assets | Liabilities | Net |
| Property, plant and equipment | 289 | - | (402) | (113) | - | (113) |
| Employee provisions | (51) | - | 3 | (48) | - | (48) |
| Forest | 17,889 | - | 440 | - | 18,329 | 18,329 |
| Capitalised forestry costs | 9,267 | - | 166 | - | 9,433 | 9,433 |
| Revaluations of foreign exchange contracts | 78 | 299 | - | - | 377 | 377 |
| Revaluations of interest rate swaps | (333) | 135 | - | (198) | - | (198) |
| Other | (4) | - | 627 | - | 623 | 623 |
| Balance at the end of the year | 27,135 | 434 | 834 | (359) | 28,762 | 28,403 |
| | 2013 \$'000 | 2013 \$'000 | 2013 \$'000 | 2013 \$'000 | 2013 \$'000 | 2013 \$'000 |
| Property, plant and equipment | 227 | - | 62 | - | 289 | 289 |
| Employee provisions | (72) | - | 21 | (51) | - | (51) |
| Forest | 15,916 | - | 1,973 | - | 17,889 | 17,889 |
| Capitalised forestry costs | 8,894 | - | 373 | - | 9,267 | 9,267 |
| Revaluations of foreign exchange contracts | 384 | (306) | - | - | 78 | 78 |
| Revaluations of interest rate swaps | (472) | 139 | - | (333) | - | (333) |
| Other | 151 | - | (155) | (4) | - | (4) |
| Balance at the end of the year | 25,028 | (167) | 2,274 | (388) | 27,523 | 27,135 |

CITY FORESTS LIMITED

Notes to the Financial Statements Cont'd/.... For the Year Ended 30 June 2014

19. CAPITAL EXPENDITURE COMMITMENTS

| | As at 30 June 2014 \$'000 | As at 30 June 2013 \$'000 |
|--|------------------------------------|------------------------------------|
| There are no capital commitments as at 30 June 2014 (2013 \$nil) | - | - |

20. CONTINGENT LIABILITIES

There are no contingent liabilities as at 30 June 2014 (2013 \$nil)

21. LEASE COMMITMENTS

(i) Minimum operating lease commitments

| | | |
|-----------------------------------|----|-----|
| Payable within one year | 44 | 77 |
| Payable between one to five years | 9 | 40 |
| Payable later than five years | 1 | - |
| | 54 | 117 |

(ii) Minimum finance lease payments

| | | |
|-----------------------------------|---|---|
| Payable within one year | - | - |
| Payable between one to five years | - | - |
| Payable later than five years | - | - |
| | - | - |

Building lease term is for 6 years commencing December 2005 with four 3 year rights of renewal.

22. CASH AND CASH EQUIVALENTS

| | | |
|---------------------------|-----|-------|
| Cash and cash equivalents | 203 | 1,854 |
| Short term deposits | - | 1,408 |
| | 203 | 3,262 |

Cash and short-term deposits comprise cash held by the company and short-term bank deposits with an original maturity of three months or less.

23. TRADE AND OTHER RECEIVABLES

| | | |
|---|-------|-------|
| Trade receivables | 3,488 | 1,446 |
| Due from related Parties - Otago Chipmill Limited | - | 1 |
| | 3,488 | 1,447 |

The Directors consider that the carrying amount of the trade and other receivables approximates their fair value.

CITY FORESTS LIMITED

Notes to the Financial Statements Cont'd/.... For the Year Ended 30 June 2014

24. OTHER CURRENT ASSETS

| | As at 30 June 2014 \$'000 | As at 30 June 2013 \$'000 |
|------------------------|------------------------------------|------------------------------------|
| Goods and services tax | 158 | 56 |
| | 158 | 56 |

25. INVENTORIES

| | | |
|--------------------------|-----|-----|
| Raw materials and stores | 450 | 644 |
| Finished goods | 137 | 252 |
| | 587 | 896 |

26. INVESTMENTS

Non-Current Investments

| | | |
|---|----|-----|
| Shares and units in other companies and funds | 1 | 1 |
| Shares and advance in Otago Chipmill Ltd | - | 308 |
| | 1 | 309 |
| | | |
| Otago Chipmill Balance Sheet | | |
| Total assets | 70 | 569 |
| Total liabilities | - | 6 |
| Net assets | 70 | 563 |

No contingent liabilities have arisen with the investment in the Otago Chipmill Limited
Full revenue/surplus/deficit of associate – 49.9% of this reflects City Forests share.

| | | |
|--------------------------|-------|-------|
| Revenue | 5 | 717 |
| Profit before income tax | (97) | (301) |
| Income tax | (10) | 10 |
| Profit after income tax | (107) | (291) |

The Directors resolved to write down the value of the Otago Chipmill Limited investment to \$nil.

27. INTANGIBLE ASSETS

Computer software

| | | |
|--------------------------------------|------|------|
| Balance at the beginning of the year | 50 | 15 |
| Plus purchases | 77 | 47 |
| Less amortisation expenses | (43) | (12) |
| | 84 | 50 |

The amortisation expense has been included in the line 'depreciation and amortisation expense' in the statement of comprehensive income.

The following useful lives are used in the calculation of amortisation
Software - 2-3 yrs

CITY FORESTS LIMITED

Notes to the Financial Statements Cont'd/.... For the Year Ended 30 June 2014

| 28. FORESTRY ASSETS | As at 30 June 2014 \$'000 | As at 30 June 2013 \$'000 |
|---|------------------------------------|------------------------------------|
| Balance at the beginning of the year | 108,589 | 103,528 |
| Add Costs capitalised in establishing forests during the year | 2,111 | 2,147 |
| Increase in forest from acquisition | 1,309 | - |
| Forest revaluation | 1,571 | 7,046 |
| Less Cost of trees harvested | (2,487) | (4,132) |
| | 111,093 | 108,589 |
| Gains/(losses) arising from changes in fair value less point of sale costs; | | |
| attributable to physical changes | 6,510 | (12,137) |
| attributable to price changes | (4,006) | 17,198 |
| | 2,504 | 5,061 |

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

The valuation methodology used establishes the fair value of the collective forest and land resource and then subtracts the value of the forestry land at \$25,573,800 value (see note 29). The NZ IFRS valuation rules require that the value is 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 7.0%.

At 30 June 2014 the company owned stands of trees on 16,326 hectares of a total land holding of 20,191 hectares. During the year the company harvested approx. 284,373 m³ of logs from its forests.

City Forests Limited is exposed to financial risks associated with USD log price and the USD and AUD sawn timber prices. This risk is managed through its financial management policy described within note 14, 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 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 Chandler Fraser Keating. The peer review was completed with regard to a summary of market transactions at arms length terms and current market conditions. The valuation assumptions include all direct costs and revenues.

CITY FORESTS LIMITED

Notes to the Financial Statements Cont'd/.... For the Year Ended 30 June 2014

29. PROPERTY, PLANT AND EQUIPMENT

| | Land Other Valuation | Forest Land Valuation | Building Cost | Roads Bridges Cost | Plant Equipment Cost | Sub-Total |
|--|----------------------------|-----------------------------|------------------|--------------------------|----------------------------|---------------|
| 2014 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Cost or Valuation | | | | | | |
| Balance at beginning of year | 994 | 25,114 | 1,913 | 6,378 | 7,342 | 41,741 |
| Increase through acquisition | - | - | - | - | - | - |
| Purchases/revaluation | (12) | 460 | - | - | 26 | 474 |
| Disposals | - | - | - | - | (2) | (2) |
| Transfer to property intended for sale | - | - | - | - | - | - |
| Reclassified as intangibles | - | - | - | - | - | - |
| Balance at end of year | 982 | 25,574 | 1,913 | 6,378 | 7,366 | 42,213 |
| Accumulated depreciation/impairment | | | | | | |
| Balance at beginning of year | 110 | - | 1,062 | 3,430 | 5,083 | 9,685 |
| Depreciation | - | - | 27 | 153 | 167 | 347 |
| Impairment | - | - | 402 | - | 1,076 | 1,478 |
| Disposals | - | - | - | - | (2) | (2) |
| Transfer to property intended for sale | - | - | - | - | - | - |
| | 110 | - | 1,491 | 3,583 | 6,324 | 11,508 |
| Balance at end of year | 872 | 25,574 | 422 | 2,795 | 1,042 | 30,705 |
| Comprising - Cost | - | - | 422 | 2,795 | 1,042 | 4,259 |
| Valuation | 872 | 25,574 | - | - | - | 26,446 |

The land valuations were obtained from Quotable Valuation which is the valuation company used by the relevant city and district councils. The revaluation movement in the land for the year ended 30 June 2014 was nil (2013 \$nil). All other asset classes are shown at cost.

CITY FORESTS LIMITED

Notes to the Financial Statements Cont'd/.... For the Year Ended 30 June 2014

29. PROPERTY, PLANT AND EQUIPMENT Cont'd/....

| | Sub-Total | Motor Vehicles Cost | Office Equipment Cost | Total |
|------------------------------------|---------------|---------------------------|-----------------------------|---------------|
| 2014 Cont'd/.... | \$'000 | \$'000 | \$'000 | \$'000 |
| Cost or Valuation | | | | |
| Balance at beginning of year | 41,741 | 817 | 299 | 42,857 |
| Increase through acquisition | - | - | - | - |
| Purchases/ revaluation | 474 | 43 | 29 | 545 |
| Disposals | (2) | (35) | (46) | (84) |
| Transfer to property held for sale | - | - | - | - |
| Reclassified as intangibles | - | - | - | - |
| | <hr/> | | | |
| Balance at end of year | 42,213 | 825 | 282 | 43,319 |
| Accumulated depreciation | | | | |
| Balance at beginning of year | 9,685 | 563 | 270 | 10,518 |
| Reclassified as intangibles | - | - | - | - |
| Depreciation | 347 | 73 | 18 | 438 |
| Impairment | 1,478 | 21 | 1 | 1,500 |
| Disposals | (2) | (31) | (46) | (79) |
| Transfer to property held for sale | - | - | - | - |
| | <hr/> | | | |
| | 11,508 | 626 | 243 | 12,377 |
| | <hr/> | | | |
| Balance at end of year | 30,705 | 199 | 39 | 30,943 |
| | | | | |
| Comprising – Cost | 4,259 | 199 | 39 | 4,497 |
| Valuation | 26,446 | - | - | 26,446 |

CITY FORESTS LIMITED

Notes to the Financial Statements Cont'd/.... For the Year Ended 30 June 2014

29. PROPERTY, PLANT AND EQUIPMENT Cont'd/....

| | Land Other Valuation | Forest Land Valuation | Buildings Cost | Roads Bridges Cost | Plant Equipment Cost | Sub-Total |
|--|----------------------------|-----------------------------|-------------------|--------------------------|----------------------------|---------------|
| 2013 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Cost or Valuation | | | | | | |
| Balance at beginning of year | 994 | 25,114 | 1,913 | 6,349 | 7,359 | 41,729 |
| Increase through acquisition | - | - | - | - | - | - |
| Purchases/revaluation | - | - | - | 29 | 8 | 37 |
| Disposals | - | - | - | - | (25) | (25) |
| Transfer to property intended for sale | - | - | - | - | - | - |
| Reclassified as intangibles | - | - | - | - | - | - |
| Balance at end of year | 994 | 25,114 | 1,913 | 6,378 | 7,342 | 41,741 |
| Accumulated depreciation | | | | | | |
| Balance at beginning of year | 110 | - | 1,035 | 3,268 | 4,913 | 9,326 |
| Depreciation | - | - | 27 | 162 | 184 | 373 |
| Impairment | - | - | - | - | - | - |
| Disposals | - | - | - | - | (14) | (14) |
| Transfer to property intended for sale | - | - | - | - | - | - |
| | 110 | - | 1,062 | 3,430 | 5,083 | 9,685 |
| Balance at end of year | 884 | 25,114 | 851 | 2,948 | 2,259 | 32,056 |
| Comprising - Cost | - | - | 851 | 2,948 | 2,259 | 6,058 |
| Valuation | 884 | 25,114 | - | - | - | 25,998 |

CITY FORESTS LIMITED

Notes to the Financial Statements Cont'd/.... For the Year Ended 30 June 2014

29. PROPERTY, PLANT AND EQUIPMENT Cont'd/....

| | Sub-Total | Motor Vehicles Cost | Office Equipment Cost | Total |
|------------------------------------|---------------|---------------------------|-----------------------------|---------------|
| 2013 Cont'd/.... | \$'000 | \$'000 | \$'000 | \$'000 |
| Cost or Valuation | | | | |
| Balance at beginning of year | 41,729 | 883 | 387 | 42,999 |
| Increase through acquisition | - | - | - | - |
| Purchases/ revaluation | 37 | 44 | 61 | 142 |
| Disposals | (25) | (110) | (88) | (223) |
| Transfer to property held for sale | - | - | - | - |
| Reclassified as intangibles | - | - | (61) | (61) |
| Balance at end of year | 41,741 | 817 | 299 | 42,857 |
| Accumulated depreciation | | | | |
| Balance at beginning of year | 9,326 | 582 | 354 | 10,262 |
| Reclassified as intangibles | - | - | - | - |
| Depreciation | 373 | 78 | 10 | 461 |
| Impairment | - | - | - | - |
| Disposals | (14) | (97) | (94) | (205) |
| Transfer to property held for sale | - | - | - | - |
| Balance at end of year | 9,685 | 563 | 270 | 10,518 |
| Balance at end of year | 32,056 | 254 | 29 | 32,339 |
| Comprising - Cost | 6,058 | 254 | 29 | 6,341 |
| Valuation | 25,998 | - | - | 25,998 |

30. 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 or converted into Assigned Amount Units (AAU's) and sold internationally. 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 Limited a total of 1,418,115 Post-89 derived NZU's, being the carbon sequestered by these forests during the 2008 to 2014 calendar years. In 2014 877,607 ERU's were purchased, these were surrendered later in the year to meet a liability the Company had for carbon credits. There has been no carbon credit sales for the financial year.

CITY FORESTS LIMITED

Notes to the Financial Statements Cont'd/.... For the Year Ended 30 June 2014

As at 30th June 2014, 751,028 units were unsold (2013 214,277). Under the accrual principle, the unsold credits have been valued based on the current market prices and recognised in the financial statements. The value has been carried in the financial statements as follows:

| | As at 30 June 2014 \$'000 | As at 30 June 2013 \$'000 |
|----------------------------|------------------------------------|------------------------------------|
| New Zealand carbon credits | 3,079 | 386 |

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

| | As at 30 June 2014 \$'000 | As at 30 June 2013 \$'000 |
|---|------------------------------------|------------------------------------|
| Net gain/(loss) for the year | 8,291 | 14,614 |
| <i>Items Not Involving Cash Flows</i> | | |
| Depreciation and loss on sale | 482 | 480 |
| Depletion of forest | 2,487 | 4,132 |
| Deferred tax | 834 | 2,274 |
| Depreciation recovered/capital gains | (12) | (15) |
| Forestry revaluation | (1,571) | (7,047) |
| Impairment of fixed assets | 1,500 | - |
| Write down of investment value | 208 | - |
| <i>Other non-cash items</i> | | |
| <i>Impact of Changes in Working Capital Items</i> | | |
| (Increase)/Decrease in accounts receivable | (2,041) | 3,585 |
| (Increase)/Decrease in inventories | 308 | 480 |
| (Increase)/Decrease in prepayments | (207) | (143) |
| (Increase)/Decrease in tax refund due | (156) | 583 |
| Increase/(Decrease) in accounts payable | 1,025 | (1,850) |
| Increase/(Decrease) in other current liabilities | (80) | - |
| (Increase)/Decrease in current assets | (2,790) | 170 |
| Net cash inflows/(outflows) from operating activities | 8,278 | 17,263 |

CITY FORESTS LIMITED

Notes to the Financial Statements Cont'd/.... For the Year Ended 30 June 2014

32. DISCONTINUED OPERATIONS

The Directors of City Forests Limited agreed as at 30th June 2012 to cease operating the wood processing site at Milburn. This has been leased to a third party as at 1st July 2012. The activities related to the wood processing plant have been reclassified to discontinued operations.

The Directors determined an impairment on the wood processing fixed assets as at 30th June 2014 of \$1,500,000.

| | 30 June 2014 \$'000 | 30 June 2013 \$'000 |
|--|------------------------------------|------------------------------------|
| Revenue | 480 | 1,122 |
| Total revenue | 480 | 1,122 |
| Movement in inventory | (115) | (769) |
| <i>Less expenses</i> | | |
| Contractors | - | 20 |
| Depreciation | 156 | 170 |
| Employees expenses | - | 14 |
| Impairment of wood processing assets | 1,500 | - |
| Other expenses | 84 | 130 |
| Total expenses | 1,740 | 334 |
| Net Profit/(Loss) before tax | (1,375) | 19 |
| Income tax expense (benefit) | (385) | 5 |
| Profit/(Loss) for the period from discontinued operations | (990) | 14 |

33. RELATED PARTY TRANSACTIONS

Amounts receivable from and payable to related parties at balance date are disclosed in notes, 13, 22 and 17.

Transactions with Dunedin City Council Group

City Forests Limited undertakes transactions with Dunedin City Council and other Dunedin City Council controlled entities on an arms length commercial basis. The company purchased goods and services and traded with Dunedin City Council in respect of the following transactions:

CITY FORESTS LIMITED

Notes to the Financial Statements Cont'd/.... For the Year Ended 30 June 2014

| | As at 30 June 2014 \$'000 | As at 30 June 2013 \$'000 |
|--|------------------------------------|------------------------------------|
| Purchases of goods and services from the Dunedin City Council: | | |
| Rates and property rentals | 10 | 12 |
| Administration and office services | 1 | 2 |
| Other | 41 | 1 |
| | 52 | 15 |
| Dunedin City Holdings Limited | | |
| Managing Services | 50 | 50 |
| Dividends | 5,100 | 4,400 |
| Delta Utility Services Limited | | |
| Roading & Earthmoving Services | 305 | 412 |
| Payable to Dunedin City Council as at balance date | 1 | - |
| Payable to Delta Utility Services Limited | 36 | 24 |
| Payable to Dunedin City Holdings Limited | 14 | 14 |
| Subvention payments: | | |
| Dunedin Venues Limited | 463 | - |
| Dunedin Venues Management Limited | 138 | 161 |
| | 601 | 161 |
| The subvention payments were made for the tax effect of the losses transferred | | |
| Loan from Dunedin City Treasury Limited as at balance date | 13,850 | 15,000 |
| Loans received during the year | 11,028 | 8,385 |
| Loans paid during the year | 10,770 | 16,175 |
| Interest due to Dunedin City Treasury Limited as at balance date | 96 | 101 |
| Interest paid during the year | 911 | 1,093 |
| Interest received during the year | 55 | 21 |
| Other payments including facility fees | 219 | 245 |
| Short term deposits to Dunedin City Treasury Limited | - | 1,408 |
| Interest due from Dunedin City Treasury Limited | - | 2 |
| Purchases of goods and services from Delta | 305 | 412 |

CITY FORESTS LIMITED

Notes to the Financial Statements Cont'd/.... For the Year Ended 30 June 2014

33. RELATED PARTY TRANSACTIONS Cont'd/....

Transactions with Associate Companies

The company also conducted the following commercial transactions with associate companies:

| | Year ended 30 June 2014 \$'000 | Year ended 30 June 2013 \$'000 |
|---|---|---|
| Sales of goods and services to associate companies: | | |
| Forest products sold to Otago Chipmill Limited | - | <u>6</u> |
| Management fees received from Otago Chipmill Limited | <u>8</u> | <u>22</u> |
| Purchases of goods and services from associate companies | <u>-</u> | <u>7</u> |
| At year end the following amounts were owed to and from the Associated Company: | | |
| Receivable from associate companies | <u>-</u> | <u>1</u> |

No related party debts have been written off or forgiven during the year and no provision has been required for impairment of any receivables to related parties.

Transactions with companies in which directors have an interest:

- During the course of the year:

Mr R D Liddell had related party interests with the following organisations during the year.

| | | |
|---|-----|-------|
| Chairman, Palmers Mechanical Limited | | |
| Plant Maintenance | 9 | 5 |
| Chairman, Dunedin City Treasury Limited | | |
| Interest on Loan | 910 | 1,093 |
| Facility Fees | 219 | 245 |
| Director, Blackhead Quarries Limited | | |
| Purchase of Roding Materials | 81 | 99 |

Mr T D Allison had related party interests with the following organisations during the year.

| | | |
|---|---|---|
| Director, Otago & Southland Employers Association | | |
| Subscription | 1 | 1 |

Mr M C Horne had related party interests with the following organisations during the year.

Director, Palmers Mechanical Limited on 17th October 2013.

CITY FORESTS LIMITED

Notes to the Financial Statements Cont'd/.... For the Year Ended 30 June 2014

33. RELATED PARTY TRANSACTIONS Cont'd/....

The Directors of City Forests Limited sat on the Boards of the following organisations during the year. Details of the type and value of services purchased from each organisation during the financial year covered by this report are as follows.

| | Year ended 30 June 2014 \$'000 | Year ended 30 June 2013 \$'000 |
|---|--|--|
| Director, Deloitte Financial Services/Directorship | 146 | 109 |

At year end the following amounts were owed to and from the Companies in which Directors have an interest:

| | | |
|----------------------------|----|---|
| Payable to: | | |
| Blackhead Quarries Limited | 28 | 6 |
| Palmers Mechanical | 9 | - |
| Deloitte | 13 | 9 |

Compensation of key management personnel

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

| | | |
|----------------------------------|-----|-----|
| Salaries and Short-term benefits | 860 | 975 |
| Post-Employment benefit | - | - |
| | 860 | 975 |

The remuneration of directors is agreed annually by the Dunedin City Council 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.

CITY FORESTS LIMITED

Notes to the Financial Statements Cont'd/.... For the Year Ended 30 June 2014

34. ADOPTION OF NEW REVISED STANDARDS AND INTERPRETATIONS

No standards have been adopted during the year which have had a material impact on the financial statements. There are no standards in issue but not yet effective which would materially impact the amounts recognised in the financial statements.

35. SUBSEQUENT EVENTS TO BALANCE DATE

Post balance date City Forests gained sub division of land at Milburn. While a deposit on sale of land had been received no title was available as at 30th June 2014. The land parcel of 27.4 ha was sold for \$670,000. City Forests Limited became part of the Dunedin City Consolidated group for tax purposes as at 1st July 2014.

City Forests Limited

STATEMENT OF SERVICE PERFORMANCE For the Year Ended 30 June 2014

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

| <u>Performance Targets</u> | <u>Achievement</u> |
|---|---|
| 1a. A comprehensive review of the Company's long term strategic plan will have been completed which meets the objective of a 7% return on shareholders' funds. | A strategy day was held on 20 th June involving the Board and Senior Managers. The Company's long term strategic plan has been reviewed and accepted by the shareholder as part of the annual budget and strategy process. |
| 1b. Opportunities for expanding the Company's scale will have been investigated. | The strategic plan incorporates a modest forest expansion program. |
| 1c. Opportunities for balancing the Company's exposure to United States Dollar revenues taking into account market and product margin factors will have been implemented. | The Company maintains a significant USD foreign exchange forward cover position in line with Company policy. |
| 2a. Strategic marketing plan supporting the regional wood processing industry will be completed. | The strategic plan incorporates domestic log sales and optional stumpage tender sales providing logs for regional wood processing. |
| 3a. The marketing strategy and plan will be updated. | Our log marketing strategy has been reviewed during the year and reported in the Board Papers. It has been approved by the Board. |
| 3b. No single customer will have received more than 30% of the Company's annual harvest by volume. | Our largest customer Craigpine Timber Limited received 15.5% of the Company's annual harvest volume. |
| 3c. The company will maximise financial opportunities from the sales of Carbon stored in the company forests. | The Company has restructured its Emission Trading Scheme involvement during the period significantly reducing future liabilities. |
| 4a. Contracted monthly log delivery requirements for customers will be met within plus or minus ten percent 80% of the time. | On an annualised basis all customers received their contracted volumes within plus or minus 10%. Variations were by mutual agreement. |
| 4b. Log deliveries will be at least 95% within specification measured by log quality audit. | Sampled logs were 96% within specification for the year. |
| 5a. The annual harvest from the forest estate will be within 20% of the long term sustainable yield. | The annual harvest from the CFL forest estate was 284,373 m ³ . This is 105% of sustainable yield of 270,000 m ³ . |
| 5b. An annual forest health report will have been completed by 30 th June 2014. | An annual forest health report was completed in the last quarter of 2013. |
| 5c. The annual fire plan will be updated and operational. | Fire plan was completed in September 2013 prior to the start of the fire season. |
| 5d. The Company will actively participate in regional land use planning processes. | The Company actively participated in the Otago Regional Council Plan Change 6a process. |

City Forests Limited

| <u>Performance Targets</u> | <u>Achievement</u> |
|--|--|
| 6b. The Company will have reviewed the best species and silvicultural management plan to apply to annual operational areas. | This process was completed and lead to the increase in Douglas Fir establishment at high altitude and the deployment of Pinus Radiata clones on high productivity sites. |
| 7a. The Company will participate in Industry Research Consortia. | The Company has paid the Forest Growers Levy and is involved through he Forest Owners Association in the allocation of Levy Funds. |
| 7b. At least one new forest management technique will be introduced as a result of research findings. | Forest plantings of clone seedling have been established across a range of sites. Forest spatial information system has been significantly upgraded. Increased Harvesting mechanisation has been achieved. |
| 8a. Forest Stewardship Council Certification will be maintained. | Forest Stewardship Council Certification was maintained following audit in the last quarter of 2013. |
| 8b. Lost time accident rates for staff and contractors will be reduced to a maximum 40 lost time injuries per 1,000,000 hours. | Lost time accident rates for staff and contractors was 26.5 lost time injuries per 1,000,000 hours. (14.5 in 2013) |
| 8c. A current forest management plan will be in place which identifes social and environmental, as well as economic outputs. | The company has a comprehensive forest management plan that has been externally audited as part of the FSC certification process. This covers all forest areas. |
| 9a. The Company will have in place an environmental management system which will include procedures for sustainability monitoring. | An environmental management system is in place with on-going monitoring of environmental values. This is available on the Company's website. |
| 9b. The Company will incorporate Carbon Accounting in the Strategic Plan. | The Company has prepared and reported on a carbon budget in the annual accounts. A carbon strategy has been agreed at the 2013 strategy review and is being implemented. |
| 10a. Every staff member will have a personal development plan in place. | Forest staff members are working towards achieving Personal Development Plans. Other training provided as necessary. Contractors are required to have a training plan for their employees. |
| 10b. Harvesting and Silviculture contractors will have a training plan in place for their employees. | Each harvesting crew has training plans and training records for all employees audited by the Company. |
| 10c. Each harvesting crew will have a trained logmaker. | Each harvest crew has multiple trained logmakers. |
| 10d. There will be "nil" instances of non-compliance with the Company's EEO policy. | There were no instances of non-compliance with the Company's EEO policy. |
| 11a. All the Company's forest management plans will have a section allocated to Recreation and Educational use of the forests. | The Company's forest management plans have sections allocated to recreation and education. |

