



**Invercargill City Forests Limited**  
**Interim Financial Statements**

**For the Six Months Ended 31 December 2017**

# Invercargill City Forests Limited

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# Invercargill City Forests Limited

## Company Directory

### ***DIRECTORS***

Mr A McKenzie (Chairman)  
Mr L A Pullar  
Mr B Nettleton  
Mrs M Montgomery

### ***AUDITOR***

Audit New Zealand  
Dunedin

### ***CHIEF EXECUTIVE OFFICER***

Mr D J Johnston

### ***BANKERS***

BNZ

### ***REGISTERED OFFICE***

C/- Invercargill City Council  
101 Esk Street  
Invercargill

### ***SOLICITORS***

Cruickshank Pryde  
42 Don Street  
Invercargill

### ***POSTAL ADDRESS***

Private Bag 90104  
Invercargill

### ***FORESTRY CONSULTANT***

IFS Growth  
Invercargill

Phone (03) 211 1777  
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## Approval by Directors

The Directors have approved for issue the interim financial statements of Invercargill City Forests Limited for the six months ended 31 December 2017

\_\_\_\_\_  
Director

\_\_\_\_\_  
Director

For and on behalf of the Board of Directors

19 February 2017

# **Invercargill City Forests Limited**

## **Statement of Accounting Policies**

### **For the Six Months Ended 31 December 2017**

#### ***REPORTING ENTITY***

Invercargill City Forests Limited (the Company) is a company incorporated in New Zealand under the Companies Act 1993 and is domiciled in New Zealand. The Company is a wholly owned subsidiary of Invercargill City Holdings Limited.

The Company is a Council Controlled Trading Organisation as defined in Section 6(1) of the Local Government Act 2002. The financial statements have been prepared in accordance with the requirements of the Local Government Act 2002, Companies Act 1993 and Financial Reporting Act 2013.

The Company is primarily involved in forestry activities, accordingly, the Company has designated itself as a profit orientated entity for the purposes of New Zealand equivalents to International Financial Reporting Standards (NZIFRS).

The financial statements of the Company are for the six months ended 31 December 2017. The financial statements were authorised for issue by the Directors on 19 February 2017. The Company's directors do not have the right to amend the financial statements after issue.

#### ***BASIS OF PREPARATION***

The financial statements of the Company have been prepared in accordance with the requirements of the Local Government Act 2002, the Financial Reporting Act 2013 and the Companies Act 1993.

The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP) and comply with the New Zealand equivalent to International Financial Reporting Standards (NZ IFRS). The condensed interim financial statements have been prepared in accordance with International Accounting Standard (IAS) 34, Interim Financial Reporting as it applies to Tier 2 entities.

The accounting policies are consistent with those followed in the preparation of the company's Financial Statements for the year ended 30 June 2017.

The financial statements have been prepared on a historical cost basis, modified by the revaluation of land and forestry assets.

The financial statements are presented in New Zealand dollars. The functional currency of the Company is New Zealand dollars.

# Statement of Financial Position

As at 31 December 2017

	Note	2017 \$000	2016 \$000
<b>Assets</b>			
Cash and cash equivalents		861	741
Trade and other receivables	6	796	1,004
Advance to associates	10	250	-
Tax receivable		-	47
<b>Total current assets</b>		<u>1,907</u>	<u>1,792</u>
Property, plant and equipment	8	7,643	7,617
Forestry assets	9	19,818	16,866
Advance to associates	10	6,700	5,750
Investment in associate	10	1,382	3,479
<b>Total non-current assets</b>		<u>35,543</u>	<u>33,712</u>
<b>Total assets</b>		<u>37,450</u>	<u>35,504</u>
<b>Liabilities</b>			
Trade and other payables	7	590	1,411
<b>Total current liabilities</b>		<u>590</u>	<u>1,411</u>
Deferred tax liability	11	4,333	3,468
Borrowings	13	21,006	20,733
<b>Total non-current liabilities</b>		<u>25,339</u>	<u>24,201</u>
<b>Total liabilities</b>		<u>25,929</u>	<u>25,612</u>
<b>Equity</b>			
Share capital	12	2,774	2,774
Revaluation reserves	12	1,547	1,547
Retained earnings	12	7,200	5,571
<b>Total equity attributable to equity holders of the Company</b>		<u>11,521</u>	<u>9,892</u>
<b>Total equity and liabilities</b>		<u>37,450</u>	<u>35,504</u>

## Statement of Comprehensive Income

For the Six Months ended 31 December 2017

	Note	2017 \$000	2016 \$000
Revenue	1	4,394	5,522
Biological asset cost of goods sold		1,154	1,253
Forestry costs		2,466	3,887
Depreciation	8	52	52
Administrative expenses	2, 3	318	271
Total operating expenditure		<u>3,990</u>	<u>5,463</u>
Finance income	4	181	198
Finance expenses	4	534	535
Net finance expense		<u>(353)</u>	<u>(337)</u>
Increase/(decrease) in the fair value of forestry		1,105	860
Share of associates profit/(loss)		(153)	360
<b>Surplus/(deficit) before tax</b>		<u>1,003</u>	<u>942</u>
Income tax expense	5	20	32
<b>Surplus/(deficit) after income tax</b>		<u>983</u>	<u>910</u>
<b>Other comprehensive income</b>			
Increase/(decrease) in the fair value of property, plant and equipment			
- land		-	-
<b>Total comprehensive income</b>		<u><u>983</u></u>	<u><u>910</u></u>

## Statement of Changes in Equity

For the Six Months ended 31 December 2017

		2017 \$000	2016 \$000
Balance at 1 July		10,538	8,982
Total comprehensive income	12	983	910
<i>Distributions to shareholders</i>			
Dividends paid/declared	12	-	-
<b>Balance at 31 December</b>		<u><u>11,521</u></u>	<u><u>9,892</u></u>

## Statement of Cash Flows

For the Six Months ended 31 December 2017

	Note	2017 \$000	2016 \$000
<b>Cash flows from operating activities</b>			
Cash receipts from customers		3,675	4,707
Interest revenue		158	167
Cash paid to suppliers and employees		(2,526)	(3,659)
Interest paid		(534)	(535)
GST (net)		139	86
Income tax paid		-	-
Net cash from operating activities	15	<u>912</u>	<u>766</u>
<b>Cash Flows from investing activities</b>			
Purchase of Property Plant & Equipment		(67)	(50)
Purchase of Biological Assets		-	-
Investments in Associates		900	-
Advances to associate		(900)	(550)
Repayment of advance from associate		-	-
Net cash from investing activities		<u>(67)</u>	<u>(600)</u>
<b>Cash flows from financing activities</b>			
Proceeds from advance from Invercargill City Holdings Limited		350	277
Repayment of advance from Invercargill City Holdings Limited		-	(100)
Dividend Payment		(550)	-
Net cash from financing activities		<u>(200)</u>	<u>177</u>
Net (decrease)/increase in cash and cash equivalents		<u>645</u>	<u>343</u>
Cash and cash equivalents at 1 July		<u>216</u>	<u>398</u>
Cash and cash equivalents at 31 December		<u>861</u>	<u>741</u>

The GST(net) component of operating activities reflects the net GST paid and received with the Inland Revenue Department. The GST(net) component has been presented on a net basis, as the gross amounts do not provide meaningful information for financial statement purposes.

# Notes to the Financial Statements

For the Six Months ended 31 December 2017

## 1 Revenue

	2017 \$000	2016 \$000
Carbon credits - post 1989	-	-
Log Sales	4,359	5,489
Rendering of services	20	33
Other income	15	-
Total revenue	<u>4,394</u>	<u>5,522</u>

## 2 Administrative expenses

	2017 \$000	2016 \$000
The following items of expenditure are included in administrative expenses:		
Directors fees	71	70
Auditor's remuneration to Audit New Zealand comprises:		
• audit of financial statements	15	16
Total auditor's remuneration	<u>15</u>	<u>16</u>

## 3 Personnel expenses

The Company has incurred \$2,500 of personnel expense to employees (2016: \$2,500).

## 4 Finance income and expenses

	2017 \$000	2016 \$000
<b>Finance income</b>		
Interest income	4	3
Interest income on advance to associates	177	195
Total finance income	<u>181</u>	<u>198</u>
<b>Finance expense</b>		
Interest expense	534	535
Total financial expenses	<u>534</u>	<u>535</u>
Net finance costs	<u>(353)</u>	<u>(337)</u>

## 5 Income tax expense in the Statement of Comprehensive Income

	2017 \$000	2016 \$000
Current tax expense		
Current period	-	-
Adjustments to current tax in prior periods	-	-
Total current tax expense	<u>-</u>	<u>-</u>
Deferred tax expense		
Origination and reversal of temporary differences	20	32
Total deferred tax expense	<u>20</u>	<u>32</u>
Total income tax expense	<u>20</u>	<u>32</u>



**Reconciliation of effective tax rate:**

	<b>2017</b>	<b>2016</b>
	<b>\$000</b>	<b>\$000</b>
Surplus/(deficit) before taxation	1,003	942
	<u>1,003</u>	<u>942</u>
Tax at 28%	281	264
Permanent differences	43	(101)
Loss offset	(304)	(131)
	<u>20</u>	<u>32</u>
Under/(Over) provisions in prior years	-	-
Total income tax expense	<u>20</u>	<u>32</u>

**6 Trade and other receivables**

	<b>2017</b>	<b>2016</b>
	<b>\$000</b>	<b>\$000</b>
Trade receivables	769	961
Related party receivables	27	43
	<u>796</u>	<u>1,004</u>
Less provision for impairment of receivables	-	-
	<u>796</u>	<u>1,004</u>

**7 Trade payables and accruals**

	<b>2017</b>	<b>2016</b>
	<b>\$000</b>	<b>\$000</b>
Trade payables	349	529
Accrued expenses	131	823
Goods and services tax	110	59
Total trade and other payables	<u>590</u>	<u>1,411</u>

## 8 Property, plant and equipment

	Land \$000	Roading \$000	Plant \$000	Total \$000
Cost/revaluation 1 July 2016	6,005	1,921	31	7,957
Accumulated depreciation 1 July 2016	-	(329)	(9)	(338)
Net book value 1 July 2016	6,005	1,592	22	7,619
Additions	-	50	-	50
Revaluations	-	-	-	-
Depreciation	-	(49)	(3)	(52)
Cost/revaluation 31 December 2016	6,005	1,971	31	8,007
Accumulated depreciation 31 December 2016	-	(378)	(12)	(390)
Net book value 31 December 2016	6,005	1,593	19	7,617
Cost/revaluation 1 July 2017	6,005	2,035	31	8,071
Accumulated depreciation 1 July 2017	-	(427)	(15)	(442)
Net book value 1 July 2017	6,005	1,608	16	7,629
Additions	-	64	3	67
Revaluations	-	-	-	-
Depreciation	-	(49)	(3)	(52)
Cost/revaluation 31 December 2017	6,005	2,099	34	8,138
Accumulated depreciation 31 December 2017	-	(476)	(18)	(494)
Net book value 31 December 2017	6,005	1,623	16	7,643

No depreciation is charged on land and there have been no impairments throughout the period.

Land is revalued with sufficient regularity to ensure the carrying value does not differ materially from that which would be determined as fair value. It is anticipated that the Land revaluation will occur every three years, unless circumstances require otherwise. The last valuation was performed by Thayer Todd Valuations Ltd (independent valuers) as at 30 June 2015. The fair value was determined on the highest and best use of the land using the market comparable method on sales of comparable land, based on the Valuers sales database.

The value of the land had it been carried at the cost model, would be \$4,427,678 at 30 June 2017 (30 June 2016 \$4,427,678).

## 9 Forestry assets

	Forestry \$000
Balance at 1 July 2016	17,259
Additions	-
Forest Assets logged at cost	(1,253)
Forest Assets held in Inventory	
Change in fair value less estimated point-of-sale costs	860
Balance at 31 December 2016	16,866
Balance at 1 July 2017	19,867
Additions	-
Forest Assets logged at cost	(1,154)
Forest Assets held in Inventory	
Change in fair value less estimated point-of-sale costs	1,105
Balance at 31 December 2017	19,818

At 30 June 2017, standing timber comprised approximately 2,624 hectares of plantations at nine different locations (30 June 2016: 2,617 hectares of plantations at eight different locations).

The forests were revalued as at 30 June 2017 by an independent valuer, Mr Geoff Manners of Woodlands Pacific. The valuation excludes funding and taxation. The discount rate is based on the mid-point of CFK's analysis of the implied pre-tax discount rates from actual transactions. The pre-tax discount rate chosen for the 2017 valuations was 7.5% (2016: 8.0%).

The Company is exposed to a number of risks related to its forestry assets.

#### **Carbon credits (Emissions Trading Scheme)**

No carbon credits have been received and sold during the period.

As at 31 December 2017 there are nil carbon credits units on hand (31 December 2016: nil).

#### **Supply and demand risk**

The Company is exposed to risks arising from fluctuations in the price and sales volume of timber. Where possible the Company manages this risk by aligning its harvest volume to market supply and demand.

The Company is exposed to movements in the price of NZU's to the extent that, the Company has insufficient NZU's to offset a deforestation liability and has to purchase NZU's on the market.

Management performs regular industry trend analysis to ensure that the Company's pricing structure is in line with the market and to ensure that projected harvest volumes are consistent with the expected demand.

#### **Climate and other risks**

The Company's pine plantations are exposed to the risk of damage from climatic changes, diseases, forest fires and other natural forces.

The Company has extensive processes in place aimed at monitoring and mitigating those risks, including regular forest health inspections and industry pest and disease surveys.

The Company also insures itself against natural disasters such as fire and lightning.

## 10 Investment In Associates

### Percentage Held by Group

Associate companies	Country of Incorporation	2017	2016	Balance Date
Forest Growth Holdings Limited	NZ	100.0%	32.1%	30 June
IFS Forestry Group Limited *	NZ	0.0%	24.9%	30 June

\* The Company holds 2,490,000 ordinary Class A shares that have been fully paid. The class A shares have equal voting rights. The Company holds 1,000,000 preferential Class B non-voting shares of which 750,000 remain uncalled at balance date.

	2017 \$000	2016 \$000
Investment in associates	1,382	3,479
Total investment in associates	<u>1,382</u>	<u>3,479</u>

The Forest Growth Holdings Limited associate has no contingent liabilities as at 31 December 2017 (2016: nil).

The IFS Forestry Group Limited has contingent liabilities as at 31 December 2017 of nil (2016: nil)

### Advances to Associate

The Company's advances to associate are as follows:

	2017 \$000	2016 \$000
Forest Growth Holdings Limited	5,800	5,750
IFS Forestry Group Limited	900	-
IFS Forestry Group Limited Preference Shares	250	-
Balance at 31 December	<u>6,950</u>	<u>5,750</u>

The Forest Growth Holdings Limited advance is unsecured and repayable on demand. Interest is charged at the average interest rate charged to Invercargill City Forests Limited by Invercargill City Holdings Ltd.

The IFS Forestry Group Limited Preference Shares advance is unsecured with interest payable at 6% and repayable on demand.

## 11 Deferred tax liabilities

Recognised deferred tax liabilities/(assets)

	2017 \$000	2017 \$000	2017 \$000	2017 \$000
	Balance at 1 July	Recognised in comprehensive income	Recognised in equity	Balance at 31 December
Property, plant and equipment	(5)	(1)	-	(6)
Biological assets	4,324	18	-	4,342
Other items	(6)	3	-	(3)
Derivatives	-	-	-	-
	<u>4,313</u>	<u>20</u>	<u>-</u>	<u>4,333</u>

	2016 \$000	2016 \$000	2016 \$000	2016 \$000
	Balance at 1 July	Recognised in comprehensive income	Recognised in equity	Balance at 31 December
Property, plant and equipment	-	-	-	-
Biological assets	3,556	(84)	-	3,472
Other items	(6)	2	-	(4)
Derivatives	(114)	114	-	-
	<u>3,436</u>	<u>32</u>	<u>-</u>	<u>3,468</u>

## 12 Equity

Reconciliation of movements in equity

	Attributable to equity holders of the Company			
	Share capital \$000	Revaluation \$000	Retained \$000	Total equity \$000
Balance at 1 July 2016	2,774	1,547	4,661	8,982
Surplus/(deficit) after income tax	-	-	910	910
<i>Other comprehensive income</i>				
Increase/(decrease) in the fair value of property, plant and equipment - land	-	-	-	-
<i>Distribution to shareholders</i>				
Dividend paid/declared	-	-	-	-
Balance at 31 December 2016	<u>2,774</u>	<u>1,547</u>	<u>5,571</u>	<u>9,892</u>
Balance at 1 July 2017	2,774	1,547	6,216	10,538
Surplus/(deficit) after income tax	-	-	983	983
<i>Other comprehensive income</i>				
Increase/(decrease) in the fair value of property, plant and equipment - land	-	-	-	-
<i>Distribution to shareholders</i>				
Dividend paid/declared	-	-	-	-
Balance at 31 December 2017	<u>2,774</u>	<u>1,547</u>	<u>7,200</u>	<u>11,521</u>

At 31 December 2017, share capital comprised 2,774,070 ordinary, fully paid up shares with equal rights (2016: 2,774,070).

### 13 Loans and borrowing

The term loan has been advanced by Invercargill City Holdings Limited under its multi-option facility. The current average interest rate payable is 4.67% (2016: 4.67%). The advance and interest rate are renegotiated as required. Therefore, the repayment period for the entire loan is greater than five years from now. The loan is unsecured. The fair value of the loan is also its carrying value.

### 14 Financial instruments

Exposure to credit, interest rate, commodity price risk, equity price and liquidity risks arises in the normal course of the Company's business.

#### Credit risk

Financial instruments which potentially subject the Company to a credit risk consist principally of cash and cash equivalents and receivables. Cash is placed with banks with high credit ratings assigned by international credit-rating agencies, or other high credit quality financial institutions.

Security is not required for the provision of goods and services but regular monitoring of balances outstanding is undertaken.

#### Liquidity risk

Liquidity risk represents the Company's ability to meet its contractual obligations as they fall due. The Company evaluates its liquidity requirements on an ongoing basis. The Company has credit lines in place with its parent entity.

#### Commodity price risk

The Company is subject to changes in the price of logs, which in turn is subject to foreign exchange risk. This risk is discussed further in note 9.

#### Currency Risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company sell logs to overseas markets, which require it to enter into transactions denominated in a foreign currency. The Company has mitigated this risk by selling the majority of its logs at wharf gate in New Zealand dollars during the current financial year.

### 15 Reconciliation of net cash flow from operating activities with reported operating surplus

	2017 \$000	2016 \$000
Surplus/(deficit) after tax	983	910
Add back Non-Cash items		
Change in fair value of associate	153	(360)
Gain/loss on Derivative Financial Assets	-	-
Biological asset COGS	1,154	1,253
Net (profit)/loss on sale of fixed assets	-	-
Depreciation	52	52
Deferred taxation	20	32
Change in fair value of forestry assets	(1,105)	(860)
	<u>274</u>	<u>117</u>
<b>Add/(less) movement in other working capital</b>		
(Increase)/Decrease in receivables	(743)	(847)
(Increase)/Decrease in taxation payable	-	-
Increase/(Decrease) in creditors and accruals	258	500
(Increase)/Decrease in GST	140	86
(Increase)/Decrease in Stock on Hand	-	-
	<u>(345)</u>	<u>(261)</u>
Net cash inflow (outflow)	<u><u>912</u></u>	<u><u>766</u></u>

**16 Post balance date events**

There have been no significant events between year end and the signing date of the financial statements.

**17 Commitments**

There are no commitments as at 31 December 2017 (2016: Nil).