ANNUAL REPORT 2016

INVERCARGILL CITY FORESTS LIMITED

ICFL
INVERCARGILL CITY FORESTS LTD

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Company Directory

Directors

Mr L A Pullar (Chairman)
Mr A McKenzie
Mr B Nettleton
Mrs M L Montgomery (appointed 1 November 2015)

Chief Executive Officer

Mr D J Johnston

Registered Office

C/- Invercargill City Council
101 Esk Street
Invercargill

Postal Address

Private Bag 90104
Invercargill 9840

Phone (03) 211 1777
Fax (03) 211 1433

Auditor

Audit New Zealand
Dunedin

Bankers

Westpac

Solicitors

Cruickshank Pryde
42 Don Street
Invercargill

Forestry Consultant

IFS Growth
Invercargill

Approval by Directors

The Directors have approved for issue the financial statements of Invercargill City Forests Limited for the year ended 30 June 2016.

L A Pullar
Chairman

A B McKenzie
Director

For and on behalf of the Board of Directors.
15 September 2016.

Statutory Information

REMUNERATION AND OTHER BENEFITS TO DIRECTORS

Mr L A Pullar	$50,000
Mr A B McKenzie	$26,300
Mr B Nettleton	$26,300
Ms M L Montgomery	$17,533

There was no remuneration or other benefits paid to Directors during the year for any of the following:

- Compensation for loss of office.
- Guarantees given by the Company for debts incurred by a Director.
- Entering into a contract to do any of the above.

SHAREHOLDINGS BY DIRECTORS

No Director has an interest in Company shares held, acquired or disposed of during the period.

RECOMMENDED DIVIDEND

$550,000 payable to Invercargill City Holdings Limited.

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

The Company has insured all its Directors against liabilities to other parties that may arise from their positions.

DONATIONS

The Company has made no donations during the period.

AUDITOR'S REMUNERATION

Auditor's fees of $17,848 were paid during the year. There were no other fees payable for other services provided by the Auditor.

USE OF COMPANY INFORMATION BY DIRECTORS

During the period the Board received no notice from Directors of the Company requesting to use Company information received in their capacity as Directors which would not otherwise be available to them.

INTERESTS IN TRANSACTIONS

During the period, no Directors had an interest in any transaction or proposed transaction with the Company.

REMUNERATION

No employees received remuneration and other benefits exceeding $100,000 during the period.

Accounting Policies

For the year ended June 30, 2016

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 2013 and Financial Reporting Act 1993.

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 year ended 30 June 2016. The financial statements were authorised for issue by the Directors on 15 September 2016. The entities 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 equivalents to International Financial Reporting Standards Reduced Disclosure Regime (NZ IFRS RDR).

The Company is a Tier 2 for-profit entity and has elected to report in accordance with the NZ IFRS Reduced Disclosure Regime on the basis that it does not have public accountability and is not a large for-profit public sector entity.

The general accounting principles as appropriate for the measurement and reporting of results and financial position under the historical cost method have been followed in preparation of these financial statements. The financial statements have been prepared on a historical cost basis, modified by the revaluation of land and forestry assets.

The accounting policies that have been applied to these financial statements are based on the External Reporting Board A1, Accounting Standards Framework (For-profit Entities Update). The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

The financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand ($'000). The functional currency of the Company is New Zealand dollars.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in the Statement of Comprehensive Income.

Monetary assets and liabilities denominated in foreign currencies are re translated at the rate of exchange at the reporting date.

ASSOCIATES

The Company accounts for an investment in an associate in the financial statements using the equity method. An associate is an entity over which the Company has significant influence and that is neither a subsidiary nor an interest in a joint venture. The investment in an associate is initially recognised at cost and the carrying amount is increased or decreased to recognise the Company's share of the surplus or deficit of the associate after the date of acquisition. The Company's share of the surplus or deficit of the associate is recognised in the Company's Statement of Comprehensive Income. Distributions received from an associate reduce the carrying amount of the investment.

The Company's share in the associate's surplus or deficits resulting from unrealised gains on transactions between the Company and its associates are eliminated.

REVENUE

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods.

Interest income is recognised using the effective interest method.

Dividends are recognised when the right to receive payment has been established.

Government grants:
NZU's allocated by the Crown represent non-monetary government grants and are initially recognised at nil value. Gains on losses on disposals are determined by comparing proceeds with the carrying amounts. These are included in the Statement of Comprehensive Income.

INCOME TAX

Income tax expense in relation to the surplus or deficit for the period comprises current tax and deferred tax.

Current tax is the amount of income tax payable based on the taxable profit for the current year, plus any adjustments to income tax payable in respect of prior years. Current tax is calculated using rates that have been enacted or substantively enacted by balance date.

Deferred tax is the amount of income tax payable or recoverable in future periods in respect of temporary differences and unused tax losses. Temporary differences are differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences or tax losses can be utilised.

Deferred tax is not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition of an asset and liability in a transaction that is not a business combination, and at the time of the transaction, affects neither accounting profit nor taxable profit.

Deferred tax is recognised on taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the company can 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 period when the liability is settled or the asset is realised, using tax rates that have been enacted or substantively enacted by balance date.

Current tax and deferred tax is charged or credited to the Statement of Comprehensive Income, except when it relates to items charged or credited directly to equity, in which case the tax is dealt with in equity.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

Bank overdrafts are shown within borrowings in current liabilities in the Statement of Financial Position.

TRADE AND OTHER RECEIVABLES

Trade and other receivables are initially measured at fair value and subsequently measured at amortised cost, using the effective interest method, less any provision for impairment.

A provision for impairment of receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted using the effective interest method.

INVENTORY

The cost of logs harvested by the Company is the fair value less costs to sell at the time the logs are harvested which becomes the initial cost. Thereafter inventory is carried at the lower of cost and net realisable value.

FINANCIAL ASSETS

Where applicable the Company classifies its investments in the following categories:

Financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at each reporting date.

- *Financial Assets at Fair Value through Profit or Loss*
  Financial assets at fair value through profit or loss are financial assets held for trading which are acquired principally for the purpose of selling in the short term with the intention of making a profit. Derivatives are also categorised as held for trading unless they are designated as hedges.
- *Loans and Receivables*
  Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise

when the Company provides money, goods or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non-current assets.

Loans and receivables are included in receivables in the Statement of Financial Position.

- *Held-to-Maturity Investments*
  Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity.

- *Available-for-Sale Financial Assets*
  Available-for-sale financial assets, comprising principally marketable equity securities, are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date. Non-current assets held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

  Available-for-sale financial assets and financial assets at fair value through profit and loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category, including interest and dividend income, are presented in the income statement within other income or other expenses in the period in which they arise.

  The Company classifies its financial assets (excluding derivatives) as loans and receivables. Loans and receivables are classified as "trade and other receivables" in the Statement of Financial Position.

- *Impairment of Financial Assets*
  At each Statement of Financial Position date, the Company assesses whether there is any objective evidence that a financial asset or group of financial assets is impaired. Any impairment losses are recognised in the Statement of Comprehensive Income.

FINANCIAL INSTRUMENTS

- *Receivables*
  Trade and other receivables are recognised initially at fair value. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables.

- *Cash and cash equivalents*
  Cash and cash equivalents comprise cash on hand and demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant amount of risk of changes in value.

- *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.

- *Borrowings*
  Borrowings are recognised initially at fair value, net of any transaction costs incurred. Borrowings are subsequently stated at amortised cost; any differences between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the

period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability at least 12 months after the balance date.

- *Derivative Financial Instruments*
  The Company uses derivative financial instruments (forward currency contracts) to hedge exposure to foreign exchange. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at fair value at each balance date. Any gains or losses arising from changes in the fair value of derivatives, except for those that qualify as cash flow hedges, are recognised in the Statement of Comprehensive Income.

LEASES

Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. Payments made under operating leases are charged to the Statement of Comprehensive Income over a straight-line basis over the period of the lease.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is shown at cost or valuation, less accumulated depreciation and impairment losses.

Property, consists of land and improvements. Land is held in two classes being Land and Roading Improvements. Roading Improvements are carried at depreciated historical cost.

Land is revalued to fair value and carried at valuation and is not depreciated. The fair value is determined by independent registered valuers based on the highest and best use of the land. In determining the highest and best use consideration is given as to whether the land has been registered under the New Zealand Emissions Trading Scheme and hence whether there are restrictions on the land use.

Land is revalued with sufficient regularity to ensure 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.

New Zealand units received from the government are recognised at cost in the financial statements, which is nil value.

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Additions

The cost of an item of property, plant and equipment is recognised as an asset if, and only if, it is probable that future economic benefits or service potential associated with the item will flow to the Company and the cost of the item can be measured reliably.

In most instances, an item of property, plant and equipment is recognised at its cost. Where an asset is acquired at no cost, or for a nominal cost, it is recognised at fair value as at the date of acquisition.

Disposals

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the asset. Gains and losses on disposals are included in the Statement of Comprehensive Income.

When revalued assets are sold, the amounts included in asset revaluation reserves in respect of those assets are transferred to retained earnings.

Subsequent Costs

Costs incurred subsequent to initial acquisition are capitalised only when it is probable that future economic benefits or service potential associated with the item will flow to the Company and the cost of the item can be measured reliably.

Depreciation

Depreciation is provided on all property, plant and equipment other than land, at rates that will write off the cost (or valuation) of the assets to their estimated residual values over their useful lives.

The useful lives and associated depreciation rates of major classes of assets have been estimated as follows:

(a) Forestry Roading Improvements
6% Diminishing Value

(b) Plant
25% - 40% Diminishing Value
and 40% Straight Line

The residual value and useful life of an asset is reviewed, and adjusted if applicable, at each financial year end.

FORESTRY ASSETS

Forestry assets are independently revalued annually at fair value less estimated point of sale costs. Fair value is determined based on the present value of expected net cash flows discounted at a current market determined pre-tax rate.

Gains or losses arising on initial recognition of forestry assets at fair value less estimated point of sale costs and from a change in fair value less estimated point of sale costs are recognised in the Statement of Comprehensive Income.

The costs to maintain the forestry assets are included in the Statement of Comprehensive Income.

GOODS AND SERVICES TAX (GST)

All items in the financial statements are stated exclusive of GST, except for receivables and payables, which are stated on a GST inclusive basis. Where GST is not recoverable as input tax then it is recognised as part of the related asset or expense.
The net amount of GST recoverable from, or payable to, the Inland Revenue Department (IRD) is included as part of receivables or payables in the Statement of Financial Position.

The net GST paid to or received from the IRD, including the GST relating to investing and financing activities, is classified as an operating cash flow in the Statement of Cash Flows.

Commitments and contingencies are disclosed exclusive of GST.

IMPAIRMENT OF NON-FINANCIAL ASSETS

Goodwill and indefinite life intangible assets are not subject to amortisation but are tested annually for impairment. Assets that have a finite useful life are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

The value in use for cash-generating assets is the present value of expected future cash flows.

If an asset's carrying amount exceeds its recoverable amount the asset is impaired and the carrying amount is written down to the recoverable amount. For revalued assets, the impairment loss is recognised against the revaluation reserve for that asset. Where that results in a debit balance in the revaluation reserve, the balance is recognised in the Statement of Comprehensive Income.

For assets not carried at a revalued amount, the total impairment loss is recognised in the Statement of Comprehensive Income.

The reversal of an impairment loss on a revalued asset is credited to the revaluation reserve. However, to the extent that an impairment loss for that asset was previously recognised in Statement of Comprehensive Income, a reversal of the impairment loss is also recognised in the Statement of Comprehensive Income.

For assets not carried at a revalued amount (other than goodwill) the reversal of an impairment loss is recognised in the Statement of Comprehensive Income.

EMPLOYEE BENEFITS

Short-Term Benefits

Employee benefits that the Company expects to be settled within 12 months of balance date are measured at nominal values based on accrued entitlements at current rates of pay.

These include salaries and wages accrued up to balance date, annual leave earned to, but not yet taken at balance date, retiring and long service leave entitlements expected to be settled within 12 months, and sick leave.

Obligations for contributions to defined contribution superannuation schemes are recognised as an expense in the Statement of Comprehensive Income as incurred.

BORROWINGS

Borrowings are initially recognised at their fair value. After initial recognition, all borrowings are measured at amortised cost using the effective interest method.

BORROWING COSTS

Borrowing costs are recognised as an expense in the period in which they are incurred.

NEW STANDARDS ADOPTED

There have been no new standards adopted during the financial year. The company has not elected to early adopt any new standards or interpretations that are issued but not yet effective.

NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

Standards, amendments and interpretations issued but not yet effective that have not been early adopted, and which are relevant to the Company are:

Except for changes detailed below there are no other standards or interpretations that have been issued but not yet effective, that have been currently assessed as being applicable to the Company.

Amendments to NZ IFRS 9 - Financial instruments
The amendment comes into effect for fiscal years beginning on or after 1 January 2018.

The final version of NZ IFRS 9 Financial Instruments brings together the classification and measurement, impairment and hedge accounting phases of the International Accounting Standards Board's project. The standard will replace NZ IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of NZ IFRS 9.

Early adoption is permitted. The company intends to adopt NZ IFRS 9 on its effective date and has yet to assess its full impact.

CHANGES IN ACCOUNTING POLICIES

Except for the new accounting standards adopted (as described above) there have been no changes in accounting policies during the period. All accounting policies have been consistently applied throughout the period covered by these financial statements.

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Statement of Financial Position

As at June 30, 2016

	Note	2016 $000	2015 $000
Assets			
Current assets			
Cash and cash equivalents	7	398	321
Trade and other receivables	8	182	266
Inventories	9	-	-
Tax receivable		47	36
Total current assets		627	623
Non-current assets			
Property, plant and equipment	10	7,620	7,219
Forestry assets	11	17,259	15,054
Investment in associate	12	3,120	1,067
Advance to associate	12	5,200	6,463
Total non-current assets		33,199	29,803
Total assets		33,826	30,426
Liabilities			
Current liabilities			
Trade and other payables	13	852	916
Employee benefit liabilities	14	-	-
Total current liabilities		852	916
Non-current liabilities			
Borrowings	15	20,556	18,399
Deferred tax liability	16	3,550	3,163
Total non-current liabilities		24,106	21,562
Total liabilities		24,958	22,478
Equity			
Share capital	17	2,774	2,774
Retained earnings	17	4,547	3,627
Other reserves	17	1,547	1,547
Total equity attributable to the equity holders of the company		8,868	7,948

The Statement of Accounting Policies and Notes to the Financial Statements are an integral part of, and should be read in conjunction with the financial statements.

Statement of Comprehensive Income

For the year ended June 30, 2016

	Note	2016 $000	2015 $000
Income			
Operating revenue	1	4,605	7,179
Other gains	2	2,574	2,051
Total income		7,179	9,230
Expenditure			
Employee expenses	4	99	73
Depreciation and amortisation	10	133	146
Biological asset Cost of Goods Sold		1,031	2,768
Forestry costs		2,960	5,135
Administration expenses	3	475	484
Total operating expenditure		4,698	8,606
Finance income	5	413	489
Finance expenses	5	1,068	1,113
Net finance expense		(655)	(624)
Operating surplus/(deficit) before tax		1,826	-
Share of associate surplus/(deficit)	12	31	(193)
Surplus/(deficit) before tax		1,857	(193)
Income tax expense	6	387	161
Surplus/(deficit) after tax		1,470	(354)
Surplus/(deficit) after tax attributable to:			
Equity holders of the Company		1,470	(354)
		1,470	(354)
Other comprehensive income			
Increase/(decrease) in fair value of property, plant and equipment - land	10	-	53
Total other comprehensive income		-	53
Total comprehensive income		1,470	(301)

The Statement of Accounting Policies and Notes to the Financial Statements are an integral part of, and should be read in conjunction with the financial statements.

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Statement of Changes in Equity

For the year ended June 30, 2016

	Note	2016 $000	2015 $000
Balance at 1 July		7,948	8,799
Total Comprehensive Income for the year	17	1,470	(301)
Distributions to shareholders			
Dividends paid/declared	17	(550)	(550)
Balance at 30 June		8,868	7,948

The Statement of Accounting Policies and Notes to the Financial Statements are an integral part of, and should be read in conjunction with the financial statements.

Statement of Cash Flows

For the year ended June 30, 2016

	Note	2016 $000	2015 $000
Cash flows from operating activities			
Interest received		382	447
Receipts from customers		4,703	7,456
Payments to suppliers and employees		(3,585)	(6,737)
Interest paid		(1,068)	(1,113)
Income tax (paid) / refund		(10)	(32)
Goods and services tax [net]		16	130
Net cash from operating activities	18	438	151
Cash flows from investing activities			
Purchase of biological assets		(960)	(3)
Purchase of property, plant and equipment		(547)	(259)
Advances made to associates		1,262	4,170
Investments in associates		(1,724)	263
Net cash from investing activities		(1,969)	4,171
Cash flows from financing activities			
Proceeds from advance from Invercargill City Holdings Limited		5,108	5,277
Repayment of advance from Invercargill City Holdings Limited		(2,950)	(9,600)
Dividends paid		(550)	(300)
Net cash from financing activities		1,608	(4,623)
Net (decrease)/increase in cash, cash equivalents and bank overdrafts		77	(301)
Cash, cash equivalents and bank overdrafts at the beginning of the year		321	622
Cash, cash equivalents and bank overdrafts at the end of the year	7	398	321

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.

The Statement of Accounting Policies and Notes to the Financial Statements are an integral part of, and should be read in conjunction with the financial statements.

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Notes to the Financial Statements

For the year ended June 30, 2016

1 Operating revenue

	2016 $000	2015 $000
Rendering of services	90	162
Log Sales	4,077	6,730
Carbon Credits - pre 1990	-	-
Carbon Credits - post 1989	438	225
Other income	-	62
	4,605	7,179

2 Other gains and losses

	2016 $000	2015 $000
Change in fair value of biological assets	2,276	2,037
Gain/(loss) on sale of shares in associate	298	-
Gain/(loss) on foreign exchange rate conversion	-	14
	2,574	2,051

3 Administrative expenses (includes)

	2016 $000	2015 $000
Director fees	120	103
Loss on sale of property, plant and equipment	13	-
Operating lease expenses	-	73
Auditor's remuneration to Audit New Zealand comprises:		
· audit of financial statements	18	17
· other audit-related services	-	-
· other audit fees	-	-
Total auditor's remuneration	18	17

4 Employee expenses

	2016 $000	2015 $000
Wages and salaries	99	73
Total employee expenses	99	73

5 Finance income and expense

	2016 $000	2015 $000
Finance Income		
Interest income	38	49
Interest income on advance to associate	375	440
Total finance income	413	489
Financial expense		
Interest expense	1,068	1,113
Total financial expenses	1,068	1,113
Net finance costs	(655)	(624)

6 Income tax expense in the Income Statement

	2016 $000	2015 $000
Current tax expense		
Current period	-	-
Adjustment for prior periods	-	-
Total current tax expense	-	-
Deferred tax expense		
Origination and reversal of temporary differences	387	161
Total deferred tax expense	387	161
Total income tax expense	387	161
Reconciliation of effective tax rate		
Profit for the year	1,857	(193)
Profit excluding income tax	1,857	(193)
Tax at 28%	520	(54)
Permanent Differences	(92)	54
Group loss offset	(41)	161
	387	161
Under/(over) provided in prior periods	-	-
Total income tax expense	387	161

The current tax expense is calculated on the assumption that tax losses of $287,812 with a tax benefit of $80,587 have been transferred to the company from the Invercargill City Holdings Limited Group by way of group loss offset (2015: tax losses of $204,296 with a tax benefit of $57,203 have been transferred to the company from the Invercargill City Holdings Limited Group by way of a group loss offset).

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7 Cash and cash equivalents

	2016 $000	2015 $000
Cash and cash equivalents	398	321
Cash and cash equivalents in the statement of cash flows	398	321

8 Trade and other receivables

	2016 $000	2015 $000
Trade receivables	105	167
GST receivable	26	43
Related party receivables	51	56
	182	266
Less provision for impairment of receivables	-	-
	182	266

Trade receivables are non-interest bearing and are generally on terms of 30 days.
For terms and conditions relating to related party receivables, refer to note 19.

As at 30 June, the ageing analysis of trade receivables is, as follows:

	Total	Neither past due nor impaired
2016	105	105
2015	167	167

See Note 22 on credit risk of trade receivables, which explains how the Company manages trade receivables.

9 Inventories

	2016 $000	2015 $000
Timber logs	-	-
Total inventories	-	-

10 Property, Plant and Equipment

2016

	Cost/ revaluation	Accumulated depreciation	Carrying amount	Current year additions (Cost)	Current year disposals (Cost)
	1 July 2015 $000	**1 July 2015 $000**	**1 July 2015 $000**	**$000**	**$000**
Land	5,518	-	5,518	487	-
Plant and equipment	194	65	129	26	189
Roading	1,801	229	1,572	121	-
Total assets	7,513	294	7,219	634	189

2015

	Cost/ revaluation	Accumulated depreciation	Carrying amount	Current year additions (Cost)	Current year disposals (Cost)
	1 July 2014 $000	**1 July 2014 $000**	**1 July 2014 $000**	**$000**	**$000**
Land	5,465	-	5,465	-	-
Plant and equipment	190	14	176	4	-
Roading	1,546	134	1,412	255	-
Total assets	7,201	148	7,053	259	-

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

Forestry 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 land was valued 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 owned by Invercargill City Forests Limited, had it been carried at the cost model, would be $4,427,678 at 30th June 2016 ($3,940,788 at 30 June 2015).

Current year disposals - Depreciation $000	Current year depreciation $000	Current year revaluation 30 June 2016 $000	Cost/ revaluation 30 June 2016 $000	Accumulated depreciation 30 June 2016 $000	Carrying amount 30 June 2016 $000
-	-	-	6,005	-	6,005
89	33	-	31	9	22
-	100	-	1,922	329	1,593
89	133	-	7,958	338	7,620

Current year disposals - Depreciation $000	Current year depreciation $000	Current year revaluation 30 June 2015 $000	Cost/ revaluation 30 June 2015 $000	Accumulated depreciation 30 June 2015 $000	Carrying amount 30 June 2015 $000
-	-	53	5,518	-	5,518
-	51	-	194	65	129
-	95	-	1,801	229	1,572
-	146	53	7,513	294	7,219

11 Biological assets

	Group Forestry $000
Balance at 1 July 2014	15,448
Additions	3
Forest Assets logged at cost	(2,434)
Forest Assets held in Inventory	-
Change in fair value less estimated point-of-sale costs	2,037
Balance at 30 June 2015	15,054
Balance at 1 July 2015	15,054
Additions	960
Forest Assets logged at cost	(1,031)
Forest Assets held in Inventory	-
Change in fair value less estimated point-of-sale costs	2,276
Balance at 30 June 2016	17,259

At 30 June 2016, standing timber comprised approximately 2,617 hectares of plantations at nine different locations. At 30 June 2015, standing timber comprised approximately 2,294 hectares of plantations at eight different locations.

The forests were revalued as at 30 June 2016 by an independent valuer, Mr Geoff Manners of Chandler Fraser Keating Limited (CFK). The valuation excludes funding and taxation. The discount rate is based on the 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 2016 valuations is 8.0% (2015: 8.5%).

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

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Carbon credits (Emissions Trading Scheme)

Invercargill City Forest Limited has received and sold the following carbon credits:

	2016 Units	2016 $000	2015 Units	2015 $000
Received:				
Post 1989	31,281 units	438	34,511 units	225
Pre 1990		-		-
		438		225
Sold:				
Post 1989	31,281 units	438	34,511 units	225
Pre 1990		-		-
		438		225

As at 30 June 2016 there are nil carbon credits units on hand (30 June 2015: nil).

Pre-1990 Forest:

Pre-1990 forests are forests that were established before 1 January 1990. NZUs cannot be earned for an increase in the carbon stock (through forest growth) in a pre-1990 forest, but NZU's are allocated based on the size of the forested area in three tranches. Provided that pre-1990 forests are re-established after harvesting (by replanting or regeneration), there are no liabilities or obligations under the ETS. Landowners of pre-1990 forests must surrender NZUs equivalent to the carbon emissions from any deforestation.

Post-1989 Forests:

Post-1989 forests are exotic or indigenous forests established after 31 December 1989 on land that was not forest land on 31 December 1989. These forests earn credits under the Kyoto Protocol rules. Therefore, they are also known as "Kyoto Protocol-compliant" forests. Participating in the ETS is voluntary for post-1989 forest owners. If they are part of the ETS, then they earn NZUs for the carbon sequestered in the forest from 1 January 2008, but will need to surrender NZUs to the Crown when the carbon held in their trees decreases, whether through harvest or natural causes (such as by fire or storm). Any liability for post-1989 participants is capped at the amount of NZUs previously claimed for that area of forest land.

Invercargill City Forests has harvested a total of 68 hectares of pre-1990 forest that has yet to be replanted. It is Invercargill City Forests Limited's intention to replant all forests.

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 deforestoration 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 lightening.

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12 Investment in associates

Associate Company	Country of Incorporation	Percentage Held 2016	Percentage Held 2015	Balance Date
Forest Growth Holdings Limited	NZ	32.1%	49%	31 March
IFS Forestry Group Limited	NZ	24.9%	-	31 March

The Company's interest in associates are accounted for using the equity method.

On 1 June 2016, the Company sold 16.9% of its shareholding in Forest Growth Holdings Limited.

On 1 June 2016, the Company purchased a 24.9% shareholding in IFS Forestry Group Limited.

The information below reflects the amounts presented in the financial statements of each entity and not the Company's share.

Summary financial information for the Company's investment in Forest Growth Holdings Limited:

	2016 $000	2015 $000
Revenue	8,753	8,212
Expenses	(9,596)	(9,514)
Profit/(Loss)	(843)	(1,302)
Company's share of profit/(loss) for the year	(412)	(637)
Adjustment for significant transactions post balance date:		
Revenue	26,751	3,388
Expenses	(25,861)	(2,482)
Profit/(Loss)	890	906
Company's share of profit/(loss)	443	444
Company's share of adjusted profit/(loss)	31	(193)

The adjustment for significant transactions post balance date relates to forestry transactions for the three month period to 30 June 2016, being the difference in balance dates between the two companies.

Current Assets	1,841	8,264
Non Current Assets	45	-
Current Liabilities	(1,604)	(6,989)
Non Current Liabilities	(20)	(3)
Net Assets	262	1,272
Proportion of Company's ownership	49%	49%
Carrying amount of the investment	128	623
Adjustment for significant transactions post balance date	443	444
Adjustment for sale of shares	(201)	-
Adjusted carrying amount of the investment	370	1,067

The associate has contingent liabilities as at 30 June 2016 of nil (30 June 2015: $125,000).
The liabilities relate to agreements for purchase of Forestry that have not settled by balance date.

Advances to Associate

The Company's advances to associate are as follows:

	2016 $000	2015 $000
Forest Growth Holdings Limited	5,200	6,463
	5,200	6,463

The advance is unsecured and repayable on demand. Interest is charged at 2% above the average interest rate charged to Invercargill City Forests Limited by Invercargill City Holdings Limited.

13 Trade and Other Payables

	2016 $000	2015 $000
Trade payables	193	343
Accrued expenses	109	23
Amounts due to other related parties	-	-
Dividends payable	550	550
Total trade and other payables	852	916

Terms and conditions of the above financial liabilities:
Trade and other payables are non-interest bearing and are normally settled on 30-day terms
Other payables are non-interest bearing and have an average term of six months
For terms and conditions relating to related party payables, refer to note 19.

For explanations on the Company's credit risk management processes, refer to Note 22.

14 Employee benefit liabilities

	2016 $000	2015 $000
Annual leave	-	-
	-	-
Comprising:		
Current	-	-
Non-current	-	-
Total employee benefit liabilities	-	-

15 Borrowings

	2016 $000	2015 $000
Non-current		
Shareholder advances	20,556	18,399
Total non-current borrowings	20,556	18,399

The term loan has been advanced by Invercargill City Holdings Limited under its multi-option facility. The current average interest rate payable is 5.67% (2015: 6.16%). 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.

16 Deferred Tax Liabilities/(Assets)

	Balance	Recognised in profit or loss	Recognised in equity	Balance	Recognised in profit or loss	Recognised in equity	Balance
	1-Jul-14			**30-Jun-15**			**30-Jun-16**
	$000	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**
Property, plant and equipment	-	-	-	-	-		-
Biological assets	3,007	161	-	3,168	388		3,556
Other items	(5)	-	-	(5)	(1)		(6)
Tax loss carry-forwards	-	-	-	-	-		-
Total movements	3,002	161	-	3,163	387	-	3,550

17 Equity

	Share capital	Cashflow Hedging reserve	Revaluation reserve	Retained earnings	Total
	$000	**$000**	**$000**	**$000**	**$000**
Balance at 1 July 2014	2,774	-	1,494	4,531	8,799
Surplus/(deficit) after tax	-	-	-	(354)	(354)
Other comprehensive income					
Increase/(decrease) in fair value of property, plant and equipment - land	-	-	53	-	53
Distributions to Shareholders					
Dividends paid/declared	-	-	-	(550)	(550)
Contributions from Shareholders					
Shares issued and paid up	-	-	-	-	-
Balance at 30 June 2015	2,774	-	1,547	3,627	7,948
Balance at 1 July 2015	2,774	-	1,547	3,627	7,948
Surplus/(deficit) after tax	-	-	-	1,470	1,470
Other comprehensive income					
Increase/(decrease) in fair value of property, plant and equipment - land	-	-	-	-	-
Distributions to Shareholders					
Dividends paid/declared	-	-	-	(550)	(550)
Contributions from Shareholders					
Shares issued and paid up	-	-	-	-	-
Balance at 30 June 2016	2,774	-	1,547	4,547	8,868

At 30 June 2016, share capital comprised 2,774,070 ordinary, fully paid up shares with equal rights (2015: 2,774,070)

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18 Reconciliation of net surplus/(deficit) to net cash inflows (outflows) from operating activities

	2016 $000	2015 $000
Reconciliation with reported operating surplus		
Net surplus after tax	1,470	(354)
Add/(deduct) non-cash items:		
Depreciation	134	146
Net (profit)/loss on derivatives	13	-
Change in fair value of biological assets	(2,276)	(2,037)
Change in fair value of associate	(31)	193
Biological assets - Cost of Goods Sold	1,031	2,768
Increase/(decrease) in deferred taxation	387	161
Increase/(decrease) in current years tax	-	-
Net (profit)/loss on sale of shares in associate	(298)	-
	(1,040)	1,231
Add/(less) movements in working capital:		
(Increase)/decrease in receivables	66	221
Increase/(decrease) in accounts payable and accruals	(64)	(1,045)
Increase/(decrease) in GST/taxation	6	98
	8	(726)
Net cash inflow (outflow) from operating activities	438	151

19 Related party transactions

The company is a wholly owned subsidiary of Invercargill City Holdings Limited. During the year, the following transactions took place:

	2016 $000	2015 $000
(a) Invercargill City Holdings Limited		
Revenue		
Provision of services	-	-
Expenditure		
Provision of services and interest payments	1,134	1,180
Dividends from Subsidiary to Parent	550	550
Loan balance outstanding to Invercargill City Holdings	20,556	18,399
Outstanding at balance date by Invercargill City Holdings	-	-
Outstanding at balance date to Invercargill City Holdings	-	-
(b) Invercargill City Council		
Revenue		
Provision of services	-	-
Expenditure		
Provision of services	119	116
Outstanding at balance date by Invercargill City Council	-	-
Outstanding at balance date to Invercargill City Council	-	-
(c) Forest Growth Holdings Limited		
Revenue		
Provision of services	462	602
Expenditure		
Provision of services	-	-
Loan balance outstanding to Invercargill City Forests Ltd	5,200	6,463
Outstanding at balance date by Invercargill City Forests Ltd	-	-
Outstanding at balance date to Invercargill City Forests Ltd	48	56
(d) IFS Forestry Group Limited		
Revenue		
Provision of services	3	-
Expenditure		
Provision of services	-	-
Outstanding at balance date by Invercargill City Forests Ltd	-	-
Outstanding at balance date to Invercargill City Forests Ltd	3	-

The current tax expense is calculated on the assumption that tax losses of $287,812 with a tax benefit of $80,587 have been transferred to the company from the Invercargill City Holdings Limited Group by way of group loss offset (2015: tax losses of $204,296 with a tax benefit of $57,203 have been transferred to the company from the Invercargill City Holdings Limited Group by way of a group loss offset).

No related party debts have been written off or were forgiven during the 2016 year (2015: nil).

Key management personnel compensation comprises:

	2016 $000	2015 $000
Short term employment benefits	99	73
Directors Fees	120	103

Short term employee benefits relate to the CEO's salary, Executive and Financial Management services.

20 Contingencies

Contingent assets:

2016 Year: Nil

2015 Year: Nil

Contingent liabilities: (refer note 11)

Invercargill City Forests has harvested a total of 68 hectares of pre-1990 forest (2015: 196 hectares). This harvested land will be replanted but at balance date carried a potential deforestation liability of $603,519. (2015: $836,659). It is Invercargill City Forests Limited's intention to replant all forests. Refer note 11.

21 Events after the Balance Sheet date

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

22 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 that potentially subject the Company consist principally of cash, 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 is the risk that the Company will encounter difficulty raising liquid funds to meet commitments 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.

The following table details the exposure to liquidity risk as at 30 June 2016:

	Maturity Dates			
	< 1 year	**1-3 years**	**> 3 years**	**Total**
	$000	**$000**	**$000**	**$000**
Financial Assets				
Cash and cash equivalents	398	-	-	398
Trade and other receivables	182	-	-	182
	580	-	-	580
Financial Liabilities				
Trade and other payables	852	-	-	852
Employee benefit liabilities	-	-	-	-
Borrowings	-	-	20,556	20,556
	852	-	20,556	21,408

The following table details the exposure to liquidity risk as at 30 June 2015:

	Maturity Dates			
	< 1 year	1-3 years	> 3 years	Total
	$000	$000	$000	$000
Financial Assets				
Cash and cash equivalents	321	-	-	321
Trade and other receivables	266	-	-	266
	587	-	-	587
Financial Liabilities				
Trade and other payables	916	-	-	916
Employee benefit liabilities	-	-	-	-
Borrowings	-	-	18,399	18,399
	916	-	18,399	19,315

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 11.

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 sells 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 2016 financial year.

23 Publication of Financial Statements

Invercargill City Forests Limited is a Council-Controlled Trading Organisation operating under the Local Government Act 2002. The Act requires the Board to deliver to the shareholders and make public the audited annual report within three months of the end of the financial year. This time frame has been met.

Company Statement of Service Performance

For the year ended June 30, 2016

The performance targets established in the 2016 Statement of Intent and the results achieved for the year ended 30 June 2016 are as follows:

Financial:

That Invercargill City Forests Limited will achieve a EBIT% - Percentage Earnings before Tax and interest on Assets Employed of 5.06%
- Achieved
- EBIT% on assets employed is 7.43%

That Invercargill City Forests Limited will achieve a Percentage of Equity to Total Assets of 34.37%
- Not achieved
- Equity to total assets % is 26.22%

Non Financial:

Mortality rates are below 10%
- Achieved
- The mortality rates on new plantings in our Cairn Peak, Dunrobin and Les Pullar forests have been less than 10%

The company complies with all consent conditions and has no breaches
- Achieved
- The Company has complied with all consent conditions that have been imposed

Net stocked area remains above 80% of productive area
- Achieved
- All harvested areas have been replanted within a 12 month period

All silviculture is completed in a timely manner
- Achieved
- All silviculture was completed at the appropriate times in each forest

Auditor's Report

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

INVERCARGILL CITY FORESTS LTD

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