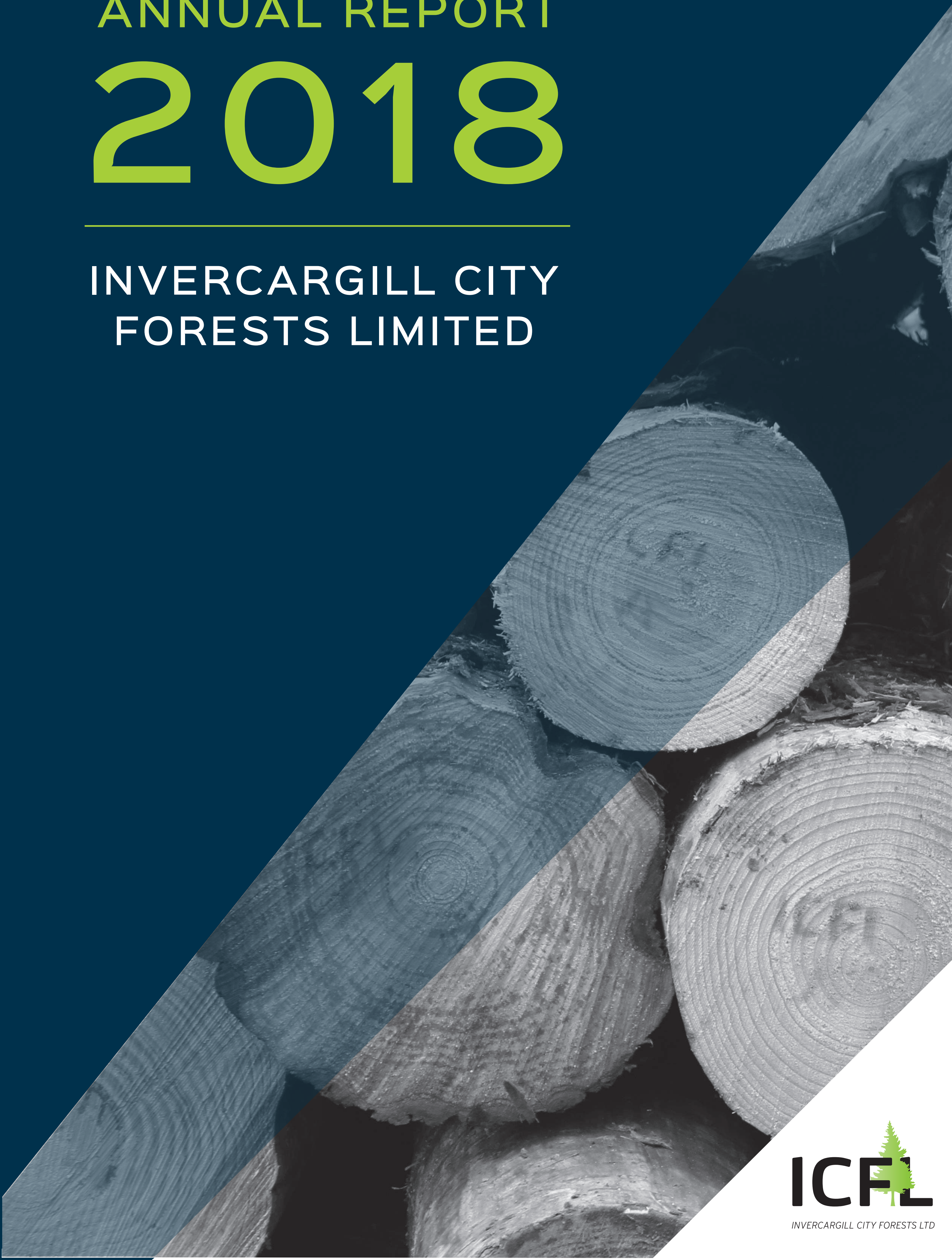
ANNUAL REPORT 2018

INVERCARGILL CITY FORESTS LIMITED



ICFL
INVERCARGILL CITY FORESTS LTD

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Company Directory

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

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
BNZ

Solicitors
Cruickshank Pryde
42 Don Street
Invercargill

Forestry Consultant
IFS Growth
Invercargill

Directors' Profiles

ALASTAIR MCKENZIE
CHAIRMAN

Alastair joined the Board of Invercargill city Forests in 2011 after completing tenure as a Director of Invercargill Airport Limited.

He has served as Director and Chairman of several Companies across a variety of industries including retail, hospitality, professional sport, health and marketing.

Alastair is a chartered member of the Institute of Directors.

LES PULLAR
DIRECTOR

Les is a retired Chartered Accountant and holds a Bachelor of Commerce degree from Otago University.

He lives in Waikouaiti and is active in local affairs in this community.

MEL MONTGOMERY
DIRECTOR

Mel works as an accountant in an Invercargill based Chartered Accountancy firm, preparing financial statements for a wide range of small to medium clients.

Her other governance roles are as Chair of Lochiel School Board of Trustees, and Executive Member of Phoenix Synchro Southland. She is also a part-time farmer.

Mel holds a degree in Commerce from Otago University and is a member of the Institute of Directors

BEN NETTLETON
DIRECTOR

Ben is a consultant solicitor with French Burt Partners Solicitors practicing in corporate and commercial law, a role he shares with outside work in governance, consulting and sports management.

His current governance roles include Southern Health School, New Zealand Thoroughbred Racing Integrity Committee / Bloodstock Syndication Supervisory Panel, Southland Disability Enterprises Limited and a Director appointment through Guardian Trust as Director of a significant farming asset.

Ben is a Chartered Member of the Institute of Directors and holds degrees in law and commerce from Otago University.

Approval by Directors

The Directors have approved for issue the financial statements of Invercargill City Forests Limited for the year ended 30 June 2018.

A B McKenzie	L A Pullar
Chairman	Director

For and on behalf of the Board of Directors.
26 September 2018

Executive Report

Invercargill City Forests is now 22 years old and is a company that is maturing with good income streams, built off the foundations laid by previous Boards and Management; who had foresight and determination which the present Board and Management are proud to be continuing.

Prices for timber both domestically and internationally have remained strong and the cost of fuel, a major contributor for the services required, has remained lower than expected. These are two factors which have enabled the company to deliver an after-tax profit of $733,000 which is somewhat lower than last year's profit of $2,105 million. The major reason for this difference is due to a change in the rate of increase in value of the forests. In 2017 the forests increased in value by $4,153,000 whereas in 2018, they only increased by $2,619,000 which reflects the lower log prices in 2017. Even with the change in result mentioned above it is very pleasing to note that total assets have increased by $3.657 million to $39.937 million with a $1.775 million increase in shareholder equity to $12.862 million.

During the year the company has added an extra 305 hectares of forest to the estate. These forests were thoroughly researched before purchase to ensure the best return on investment and their suitability for the future ongoing generation of value. Consideration was given to other forests, however after appropriate due diligence by the Board, offers were not made on them. The Board has found it difficult to purchase locally and are happy to announce that they have purchased two blocks in the Nelson area with a range of other opportunities under consideration in Southland and Nelson.

In total, Forests were purchased at Mossburn, Dipton and two in the Nelson region. These purchases enabled the Board to fulfil one of its KPIs during the year of growing the company by 10%.

Health and Safety is now joined with Environmental as areas that the Board are monitoring on an ongoing basis together with regularly upskilling themselves and ensuring those who are in our forests are sufficiently trained. It is pleasing to note that there have been only two minor health and safety incidents this year resulting in only two days lost time. Environmentally there have been no incidents and with the recent introduction of the National Environmental Standards for Plantation Forestry, we will be focusing on this more during the upcoming year.

In July 2017 both the Invercargill City Forests Board and the Board of IFS agreed that the current shareholding situation was not tenable and was inhibiting both organisations from achieving their potential. A negotiated exit was arranged where both parties retrieved their initial costs with ICFL obtaining complete control of Forest Growth Holdings Limited (FGH) and its assets.

One of the Boards beliefs is that in order for the industry to progress we must ensure that there is continual education and research being undertaken to ensure we remain at the leading edge of the industry. To this end we have asked the NZ Institute of Forestry to find a suitable Invercargill connected recipient for a "one off" scholarship of $5,000 to help them with their continual education and/or research. We are very pleased to announce that Logan Robertson has been awarded the scholarship for 2018 to enable him to continue his forestry education.

Our subsidiary company FGH has neared the end of its current life and is presently being wound down and hopefully by December will be a shelf company.

The problem with this is that with today's intricate accounting standards we have been told that there is good will in the company of $641,000 which must be written off which has been offset by a gain in goodwill of $310,000. This impairment has reduced our profitability accordingly leaving us still with an after tax profit of $733,000 as previously mentioned. In July, FGH was issued with a formal warning by the Overseas Investment Office and a settlement reached over the sale of land that FGH owned.

The Directors believe that in today's world we need to have some form of consumer accountability. To this extent we are progressing with the certification of the forests and the company. The certification we have chosen is "The Forest Stewardship Council". We believe in the principles that this certification stands for and believe that having this certification will benefit us as consumers become more aware and demanding in relation to where and how the product they use is derived.

The Board believes that the company is fortunate to be in a situation whereby it is able to maintain the strong position it currently enjoys. I must thank the Directors of Invercargill City Holdings Limited, the Directors of Invercargill City Forests Limited, Les Pullar, Ben Nettleton and Mel Montgomery, as well as Dean Johnston and his team for their support, commitment and determination in ensuring that Invercargill City Forests remains strong and vibrant.

Alastair McKenzie
Chairman

Dean Johnston
Chief Executive

Statutory Information

REMUNERATION AND OTHER BENEFITS TO DIRECTORS

Mr L A Pullar	$32,667
Mr A B McKenzie	$51,333
Mr B Nettleton	$28,000
Ms M L Montgomery	$28,000

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.

SHAREHOLDINGS BY DIRECTORS

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

RECOMMENDED DIVIDEND

It is recommended that a dividend of $550,000 be paid.

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 $32,933 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, 2018

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 and the group as a profit orientated entity for the purposes of New Zealand equivalents to International Financial Reporting Standards (NZ IFRS).

The financial statements of the Group are for the year ended 30 June 2018. The financial statements were authorised for issue by the Directors on 26 September 2018. The entities directors do not have the right to amend the financial statements after issue.

BASIS OF PREPARATION

The financial statements of the Company and Group 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 Group 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 Group 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.

SUBSIDIARIES

The Company consolidates as subsidiaries in the group financial statements all entities where the Company has the capacity to control their financing and operating policies so as to obtain benefits from the activities of the entity.

This power exists where the Company controls the majority voting power on the governing body or where such policies have been irreversibly predetermined by the Company or where the determination of such policies is unable to materially impact the level of potential ownership benefits that arise from the activities of the subsidiary.

The Group measures the cost of a business combination as the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, in exchange for control of the subsidiary plus any costs directly attributable to the business combination.

Any excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities is recognised as goodwill.

ASSOCIATES

The Group accounts for an investment in an associate in the financial statements using the equity method. An associate is an entity over which the Company and Group 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 and Group's share of the surplus or deficit of the associate after the date of acquisition. The Company's and Group's share of the surplus or deficit of the associate is recognised in the Company's and Group's Statement of Comprehensive Income. Distributions received from an associate reduce the carrying amount of the investment.

The Company's and Group's share in the associate's surplus or deficits resulting from unrealised gains on transactions between the Company and Group 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 or 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 and Group 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 and Group 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 and Group 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 Group 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 and Group 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 and Group'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 and Group 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 and Group assess 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 and Group use 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.

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 Group 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 Group 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 and Group expect 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 Group has not elected to early adopt any new standards or interpretations that are issued but not yet effective.

CHANGES IN ACCOUNTING POLICIES

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.

The Year in Review

Dividend Paid
$550,000

Tonnes harvested
50,145

Seedlings planted
163,000

Carbon units stored
230,627

SALES
59% Domestic
41% Export

305
Hectares purchased

251 drug
tests performed

1 **Lost time injury**
and one near miss

$5,000
NZIF Foundation scholarship

ICFL
INVERCARGILL CITY FORESTS LTD

Statement of Financial Position

As at June 30, 2018

	Note	Group 2018 $000	Parent 2017 $000
Assets			
Current assets			
Cash and cash equivalents		528	216
Trade and other receivables	8	110	83
Inventories	9	4,700	-
Advance to associate	13	-	250
Advance to non-subsidiaries	15	626	-
Total current assets		5,964	549
Non-current assets			
Property, plant and equipment	10	10,000	7,629
Forestry assets	11	23,965	19,867
Intangible assets	12	8	-
Investment in associates	13	-	2,435
Advance to associate		-	5,800
Total non-current assets		33,973	35,731
Total assets		39,937	36,280
Liabilities			
Current liabilities			
Trade and other payables	16	173	224
Tax payable		6	-
Employee benefit liabilities	17	-	-
Total current liabilities		179	224
Non-current liabilities			
Borrowings	18	22,231	20,656
Deferred tax liability	19	4,665	4,313
Total non-current liabilities		26,896	24,969
Total liabilities		27,075	25,193
Equity			
Share capital	20	2,774	2,774
Retained earnings	20	6,949	6,766
Other reserves	20	3,139	1,547
Total equity attributable to the equity holders of the company		12,862	11,087

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, 2018

	Note	Group 2018 $000	Parent 2017 $000
Income			
Operating revenue	2	7,614	6,798
Other gains	3	2,928	4,153
Total income		10,542	10,951
Expenditure			
Cost of sales		1,890	-
Employee expenses	5	47	99
Depreciation and amortisation	10	105	105
Biological asset Cost of Goods Sold		1,355	1,545
Forestry costs		3,874	4,599
Administration expenses	4	642	764
Impairment of goodwill		641	-
Total operating expenditure		8,554	7,112
Finance income	6	117	394
Finance expenses	6	1,045	1,096
Net finance expense		(928)	(702)
Operating profit/(loss) before tax		1,060	3,137
Share of associate profit/(loss)	13	25	(155)
Profit/(loss) before tax		1,085	2,982
Income tax expense	7	352	877
Profit/(loss) after tax		733	2,105
Other comprehensive income			
Increase/(decrease) in fair value of property, plant and equipment - land	20	1,592	-
Total other comprehensive income		1,592	-
Total comprehensive income		2,325	2,105

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 Changes in Equity

For the year ended June 30, 2018

	Note	Group 2018 $000	Parent 2017 $000
Balance at 1 July		11,087	9,532
Total Comprehensive Income for the year	20	2,325	2,105
Distributions to shareholders			
Dividends paid	20	(550)	(550)
Balance at 30 June		12,862	11,087

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, 2018

	Note	Group 2018 $000	Parent 2017 $000
Cash flows from operating activities			
Interest received		117	363
Receipts from customers		7,682	6,931
Payments to suppliers and employees		(4,610)	(5,261)
Interest paid		(1,045)	(1,096)
Income tax (paid) / refund		-	47
Goods and services tax [net]		(3)	(2)
Net cash from operating activities	**21**	2,141	982
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		23	-
Purchase of biological assets		(2,713)	-
Purchase of intangible assets		(8)	-
Purchase of property, plant and equipment		(884)	(114)
Advances made to associates		-	(600)
Advances made to non-subsidiaries		500	-
Acquisition of subsidiary, net of cash		228	-
Net cash from investing activities		(2,854)	(714)
Cash flows from financing activities			
Proceeds from advance from Invercargill City Holdings Limited		2,575	700
Repayment of advance from Invercargill City Holdings Limited		(1,000)	(600)
Dividends paid		(550)	(550)
Net cash from financing activities		1,025	(450)
Net (decrease)/increase in cash, cash equivalents and bank overdrafts		312	(182)
Cash, cash equivalents and bank overdrafts at the beginning of the year		216	398
Cash, cash equivalents and bank overdrafts at the end of the year		528	216

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.

INVERCARGILL CITY FORESTS LTD

Notes to the Financial Statements

For the year ended June 30, 2018

1 Restatement of comparative information

A review was undertaken on the accounting for dividends during the reporting period. It was determined that the dividend should not be recognised until it has been appropriately authorised and no longer at the Company's discretion. The Company has historically declared dividends in June annually, subject to final audit results and the resolution of a solvency certificate at the time the dividend payment is made which occur after 30 June. The dividends should not have been recognised as at 30 June.

This accounting adjustment has resulted in a restatement of each of the affected financial statements line items for prior periods as follows:

	30 June 2017			30 June 2016		
Statement of Financial Position (Extract)	**Previous Amount $000**	**Adjustment $000**	**Restated Amount $000**	**Previous Amount $000**	**Adjustment $000**	**Restated Amount $000**
Trade and other payables	(774)	550	(224)	(852)	550	(302)
Net Assets	**10,537**	**550**	**11,087**	**8,982**	**550**	**9,532**
Retained earnings	(6,216)	(550)	(6,766)	(4,661)	(550)	(5,211)
Total Equity	**(10,537)**	**(550)**	**(11,087)**	**(8,982)**	**(550)**	**(9,532)**

2 Operating Revenue	**Group 2018 $000**	**Parent 2017 $000**
Rendering of services	174	56
Harvesting income	5,556	6,741
Sale of land and trees	1,850	-
Other income	34	1
	7,614	6,798

3 Other gains and losses	**Group 2018 $000**	**Parent 2017 $000**
Change in fair value of biological assets	2,618	4,153
Gain on previously held investment	310	-
	2,928	4,153

4 Administrative expenses (includes)	**Group 2018 $000**	**Parent 2017 $000**
Director fees	140	143
Loss on disposal of investment	29	-
Impairment of investment	-	279
Donations	30	-
Auditor's remuneration to Audit New Zealand comprises:		
· audit of financial statements	33	21

5 Employee expenses

	Group 2018 $000	Parent 2017 $000
Wages and salaries	47	99
Total employee expenses	47	99

6 Finance income and expense

	Group 2018 $000	Parent 2017 $000
Finance Income		
Interest income	117	6
Interest income on advance to associate	-	388
Total finance income	117	394
Financial expense		
Interest expense	1,045	1,096
Total financial expenses	1,045	1,096
Net finance costs	(928)	(702)

7 Income tax expense in the Income Statement

	Group 2018 $000	Parent 2017 $000
Current tax expense		
Current period	-	-
Adjustment for prior periods	-	-
Total current tax expense	-	-
Deferred tax expense		
Origination and reversal of temporary differences	352	877
Total deferred tax expense	352	877
Total income tax expense	352	877
Reconciliation of effective tax rate		
Profit for the year	1,085	2,982
Profit excluding income tax	1,085	2,982

Tax at 28%	304	835
Permanent Differences	212	121
Imputation credits utilised	(102)	-
Change in recognised temporary differences	105	-
Loss offset	(167)	(79)
	352	877
Under/(over) provided in prior periods		-
Total income tax expense	352	877

The current tax expense is calculated on the assumption that tax losses of $598,043 (2017: $285,750) with a tax benefit of $167,452 (2017: $80,010) have been transferred from Invercargill City Council (2017: Invercargill City Holdings Limited) by way of group loss offset.

8 Trade and other receivables

	Group 2018 $000	Parent 2017 $000
Trade receivables	84	15
GST receivable	26	29
Related party receivables	-	39
	110	83
Less provision for impairment of receivables	-	-
	110	83

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 23.

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

	Total	Neither past due nor impaired
2018	84	84
2017	15	15

See Note 27 on credit risk of trade receivables, which explains how the Company manages trade receivables.

9 Inventories

	Group 2018 $000	Parent 2017 $000
Land and trees held for sale	4,700	-
	4,700	-

10 Property, plant and equipment

2018 - Group ($000)

	Cost/ revaluation	Accumulated depreciation	Carrying amount	Current year additions (Cost)	Current year disposals (Cost)
	1 July 2017	**1 July 2017**	**1 July 2017**		
Land	6,005	-	6,005	818	-
Plant and equipment	31	15	16	3	-
Roading	2,036	428	1,608	64	-
Total assets	8,072	443	7,629	885	-

2017 - Parent ($000)

	Cost/ revaluation	Accumulated depreciation	Carrying amount	Current year additions (Cost)	Current year disposals (Cost)
	1 July 2016	**1 July 2016**	**1 July 2016**		
Land	6,005	-	6,005	-	-
Plant and equipment	31	9	22	-	-
Roading	1,922	329	1,593	114	-
Total assets	7,958	338	7,620	114	-

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 2018. 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. This resulted in a revaluation increase movement of $1,592,000.

The value of the land owned by Invercargill City Forests Limited, had it been carried at the cost model, would be $5,245,505 at 30th June 2018 ($4,427,678 at 30 June 2017).

Current year disposals - Depreciation	Current year depreciation	Current year revaluation	Cost/ revaluation	Accumulated depreciation	Carrying amount
			30 June 2018	**30 June 2018**	**30 June 2018**
-	-	1,592	8,414	-	8,414
-	5	-	34	20	14
-	100	-	2,100	528	1,572
-	105	1,592	10,548	548	10,000

Current year disposals - Depreciation	Current year depreciation	Current year revaluation	Cost/ revaluation	Accumulated depreciation	Carrying amount
			30 June 2017	**30 June 2017**	**30 June 2017**
-	-	-	6,005	-	6,005
-	6	-	31	15	16
-	99	-	2,036	428	1,608
-	105	-	8,072	443	7,629

11 Biological assets

	Group Forestry $000
Balance at 1 July 2016	17,259
Additions	-
Forest Assets logged at cost	(1,545)
Forest Assets held in Inventory	-
Change in fair value less estimated point-of-sale costs	4,153
Balance at 30 June 2017	19,867
Balance at 1 July 2017	19,867
Additions	2,834
Forest Assets logged at cost	(1,354)
Forest Assets held in Inventory	-
Change in fair value less estimated point-of-sale costs	2,618
Balance at 30 June 2018	23,965

At 30 June 2018, standing timber comprised approximately 2,800 hectares of plantations at 12 different locations. At 30 June 2017, standing timber comprised approximately 2,624 hectares of plantations at nine different locations.

The forests were revalued as at 30 June 2018 by an independent valuer, Mr Brian Johnson of Margules Groome (2017: Mr Geoff Manners of Woodlands Pacific). The valuation excludes funding and taxation. The discount rate is based on the implied pre-tax discount rate from actual transactions (2017: the mid-point of Woodland Pacific's analysis of the implied pre-tax discount rates from actual transactions). The pre-tax discount rate chosen for the 2018 valuations is 6.75% (2017: 7.5%).

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

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 48 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 lightning.

12 Intangible assets

	Carbon Credits $000	Goodwill $000	Group Total $000
Costs			
Balance at 01 July 2016	-	-	-
Balance at 30 June 2017	-	-	-
	-	-	-
Balance at 01 July 2017	-	-	-
Additions	8	641	649
Balance at 30 June 2018	8	641	649
Amortisation and Impairment charges			
Balance at 01 July 2016	-	-	-
Balance at 30 June 2017	-	-	-
Balance at 01 July 2017	-	-	-
Impairment losses	-	641	641
Balance at 30 June 2018	-	641	641
Carrying amounts			
Balance at 01 July 2016	-	-	-
Balance at 30 June 2017	-	-	-
At 01 July 2017	-	-	-
At 30 June 2018	8	-	8

Amortisation and impairment of intagible assets are recognised in the Statement of Comprehensive Income.

Carbon Credits

Carbon units have been assessed as having an indefinate useful life because they have no expiry date and will continue to have economic benefit for as long as the Emissions Trading Scheme is in place.

As NZUs are an indefinite life intagible asset, they are tested for impairment on an annual basis or when indications of impairment exist.

The unsold units have been valued based on the current market price and recognised in the financial statements.

Carbon units can be sold or surrendered towards the carbon liability generated from harvesting forests.

As at June 2018 there are 363 carbon credits units on hand (30 June 2017: nil).

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13 Investment in associates

Associate Companies	Country of Incorporation	Percentage Held by Group 2018	Percentage Held by Group 2017	Balance date
Forest Growth Holdings Limited	NZ	-	32.1%	30-June
IFS Forestry Group Limited*	NZ	-	24.9%	30-June

*The Company held 2,490,000 ordinary Class A shares that have been fully paid. The Class A shares have equal voting rights.

	Group 2018 $000	Parent 2017 $000
Investment in associates	-	2,435
Total investment in associates	-	2,435

On 30 September 2017, Invercargill City Forests Limited purchased an additional 67.9% shareholding in Forest Growth Holdings Limited, thereby obtaining control and taking the total shareholding to 100%. For details of the acquisition, refer to note 14.

On 30 September 2017, Invercargill City Forests Limited sold its 24.9% shareholding in IFS Forestry Group Limited.

Disposal of IFS Forestry Group Limited Investment

	$000
Consideration received	2,150
Carrying amount of investment in associate at 30 September	(2,179)
Loss on disposal	(29)

Advances to Associate
The Company's advances to associate are as follows:

	Group 2018 $000	Parent 2017 $000
Forest Growth Holdings Limited	-	5,800
IFS Forestry Group Limited	-	250
	-	6,050

The Forest Growth Holdings Limited 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.

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

14 Investment in subsidiary

Subsidiary Company	Country of Incorporation	Percentage Held by Parent 2018	Percentage Held by Parent 2017	Balance date
Forest Growth Holdings Limited	NZ	100%	-	30-June

	Parent 2018 $000
Advance to subsidiary	3,910
Shares in subsidiary	1,200
Total investment in subsidiary	5,110

On 30 September 2017, the Company acquired the other 67.9% of the issued share capital of Forest Growth Holdings Limited (FGH), a forestry dealer, thereby obtaining control. The fair value of the 32.1% previously held interest in FGH immediately prior to the 30 September 2017 acquisition was $591,000.

The acquisition was made to enable the Company to continue trading FGH and make returns on forest sales.

The details of the business combination are as follows:

Fair value of consideration transferred:	$000
Amount settled in cash	1,250
	1,250
Recognised amounts of identifiable net assets:	
Cash and cash equivalents	228
Trade and other receivables	98
Biological assets	121
Inventories	6,590
Non-current assets held for sale	25
Total current assets	7,062
Trade and other payables	(61)
Borrowings	(5,800)
Total current liabilities	(5,861)
Deferred tax liability	(1)
Total non-current liabilities	(1)
Identifiable net assets	1,200
Goodwill on acquisition	641

The goodwill is attributable to the reputation of FGH in the market, its relationships with key customers and its intellectual property.

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

The acquisition of FGH was settled in cash amounting to $1,250,000.

At 30 September 2017 a contingent liability existed in relation to the Overseas Investment Office (OIO) investigation into an alleged breach of the Overseas Investment Act 2005. At the time of the transaction, a settlement had not yet been reached with the OIO and the financial penalties imposed by the OIO were not able to be reliably measured.

15 Loans to other non-subsidiaries

	Group 2018 $000	Parent 2017 $000
Current		
Loan to Dan Minehan Family Trust	376	-
Loan to IFS Forestry Group Limited	250	-
Total current loans	626	-

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

An interest free loan of $900,000 was advanced to the Dan Minehan Family Trust on 30 September 2017. A minimum of $500,000 was repayable by 30 June 2018 and the balance of $400,000 is due no later than 30 June 2019. The loan is secured by a first and only Specific Security Agreement over the shares of IFS Forestry Group Limited and a limited guarantee by Dan Minehan. The loan has been adjusted to fair value.

16 Trade and other payables

	Group 2018 $000	Parent 2017 $000
Trade payables	60	123
Accrued expenses	113	101
Total trade and other payables	173	224

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 on-interest bearing and have an average term of six months.
For terms and conditions relating to related party payables, refer to note 23.

For explanations on the Company's credit risk management processes, refer to Note 27.

17 Employee benefit liabilities

	Group 2018 $000	Parent 2017 $000
Annual leave	-	-
	-	-
Comprising:		
Current	-	-
Non-current	-	-
Total employee benefit liabilities	-	-

18 Borrowings

	Group 2018 $000	Parent 2017 $000
Non-current		
Shareholder advances	22,231	20,656
Total non-current borrowings	22,231	20,656

The term loan has been advanced by Invercargill City Holdings Limited under its multi-option facility. The current average interest rate payable is 4.7% (2017: 4.74%). 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.

19 Deferred Tax Liabilities/(Assets)

Group ($000)	Balance **1-Jul-16**	Recognised in profit or loss	Recognised in equity	Balance **30-Jun-17**	Recognised in profit or loss	Recognised in equity	Balance **30-Jun-18**
Property, plant and equipment	-	(5)	-	(5)	(2)	-	(7)
Biological assets	3,556	768	-	4,324	424	-	4,748
Other items	(6)	-	-	(6)	4	-	(2)
Inventory	-	-	-	-	(74)	-	(74)
Tax loss not recognised	(114)	114	-	-	-	-	-
Total movements	3,436	877	-	4,313	352	-	4,665

20 Equity

	Share capital	Cashflow Hedging reserve	Revaluation reserve	Retained earnings	Total
	$000	**$000**	**$000**	**$000**	**$000**
Balance at 1 July 2016	2,774	-	1,547	5,211	9,532
Profit / (loss)				2,105	2,105
Other comprehensive income					
Increase/(decrease) in fair value of property, plant and equipment - land	-	-	-	-	-
Distributions to Shareholders					
Dividends paid	-	-	-	(550)	(550)
Contributions from Shareholders					
Shares issued and paid up	-	-	-	-	-
Balance at 30 June 2017	2,774	-	1,547	6,766	11,087
Balance at 1 July 2017	2,774	-	1,547	6,766	11,087
Profit / (loss)	-	-	-	733	733
Other comprehensive income					
Increase/(decrease) in fair value of property, plant and equipment - land	-	-	1,592	-	1,592
Distributions to Shareholders					
Dividends paid	-	-	-	(550)	(550)
Contributions from Shareholders					
Shares issued and paid up	-	-	-	-	-
Balance at 30 June 2018	2,774	-	3,139	6,949	12,862

At 30 June 2018, share capital comprised 2,774,070 ordinary, fully paid up shares with equal rights (2017: 2,774,070)

21 Reconciliation of net profit / (loss) to net cash inflows (outflows) from operating activities

	Group 2018 $000	Parent 2017 $000
Reconciliation with reported operating surplus		
Net profit after tax	733	2,105
Add/(deduct) non-cash items:		
Depreciation	104	105
Net (profit)/loss on sale of fixed assets	2	-
Change in fair value of biological assets	(2,619)	(4,153)
Change in fair value of loan	24	-
Change in fair value of associate	(25)	155
Biological assets - Cost of Goods Sold	1,354	1,545
Increase/(decrease) in deferred taxation	352	877
Impairment in investment	-	279
Impairment of goodwill	641	-
Net (profit)/loss on sale of shares in associate	29	-
Gain on previously held investment	(310)	-
	(448)	(1,192)
Add/(less) movements in working capital:		
(Increase)/decrease in receivables	66	103
(Increase/decrease in inventories	1,890	-
Increase/(decrease) in accounts payable and accruals	(98)	(78)
Increase/(decrease) in GST/taxation	(2)	44
	1,856	69
Net cash inflow (outflow) from operating activities	2,141	982

22 Changes in liabilities arising from financing activities

The changes in the liabilities arising from financing activities can be classified as follows:

	Long-term borrowings $000
1 July 2017	20,656
Cashflows	
Proceeds	2,575
Repayments	(1,000)
30 June 2018	22,231

23 Related party transactions

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

	Group 2018 $000	Parent 2017 $000
(a) Invercargill City Holdings Limited		
Revenue		
Provision of services	-	-
Expenditure		
Provision of services and interest payments	1,111	1,162
Dividends from Subsidiary to Parent	550	550
Loan balance outstanding to Invercargill City Holdings	22,231	20,656
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	110	88
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	-	526
Expenditure		
Provision of services	-	-
Loan balance outstanding to Invercargill City Forests Ltd	-	5,800
Outstanding at balance date by Invercargill City Forests Ltd	-	-
Outstanding at balance date to Invercargill City Forests Ltd	-	34
(d) IFS Forestry Group Limited		
Revenue		
Provision of services	-	-
Expenditure		
Provision of services	-	-
Outstanding at balance date by Invercargill City Forests Ltd	-	-
Outstanding at balance date to Invercargill City Forests Ltd	-	3

	Group 2018 $000	Parent 2017 $000
(e) IFS Growth Limited		
Revenue		
Provision of services	-	-
Expenditure		
Provision of services	641	751
Outstanding at balance date by Invercargill City Forests Ltd	41	111
Outstanding at balance date to Invercargill City Forests Ltd	-	-
(f) OneForest Limited		
Revenue		
Provision of services	5,520	6,740
Expenditure		
Provision of services	2,801	3,185
Outstanding at balance date by Invercargill City Forests Ltd	-	-
Outstanding at balance date to Invercargill City Forests Ltd	-	-
(g) Independent Forestry Services Limited		
Revenue		
Provision of services	-	-
Expenditure		
Provision of services	5	-
Outstanding at balance date by OneForest Limited	-	-
Outstanding at balance date to OneForest Limited	-	-

Key management personnel include the Directors and Chief Executive. Short-term employment benefits consists of the Chief Executives salary, Executive and Financial Management services.

No related party debts have been written off or were forgiven during the 2018 year (2017:nil).

Key management personnel compensation comprises:	Group 2018 $000	Parent 2017 $000
Short term employment benefits	47	99
Directors Fees	140	140

24 Capital and Operating Commitments

There are no commitments contracted for at 30 June 2018 (2017: nil).

25 Contingencies

Invercargill City Forests has harvested a total of 17 hectares of pre-1990 forest (2017: 48 hectares). This harvested land will be replanted but at balance date carried a potential deforestation liability of $192,345 (2017: $593,068). It is Invercargill City Forests Limited's intention to replant all forests. Refer note 11.

At 30 June 2018 the Company had entered into contracts to purchase a 33 hectare forest at Dipton and a 105 hectare forestry right in the Nelson region. Settlement for the two purchases occured after balance date.

26 Events after the Balance Sheet date

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

27 Financial Instruments

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

Credit risk

Financial instruments that potentially subject the Company and Group to concentrations of credit risk 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 and Group will encounter difficulty raising liquid funds to meet commitments as they fall due. The Company and Group 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 2018:

	Maturity Dates			
	< 1 year	1-3 years	> 3 years	Total
Group	**$000**	**$000**	**$000**	**$000**
Financial Assets				
Cash and cash equivalents	528	-	-	528
Trade and other receivables	110	-	-	110
Advances	626	-	-	626
	1,264	-	-	1,264
Financial Liabilities				
Trade and other payables	172	-	-	172
Borrowings	-	-	22,231	22,231
	172	-	22,231	22,403

The following table details the exposure to liquidity risk as at 30 June 2017:

	Maturity Dates			
	< 1 year	1-3 years	> 3 years	Total
Parent	**$000**	**$000**	**$000**	**$000**
Financial Assets				
Cash and cash equivalents	216	-	-	216
Trade and other receivables	83	-	-	83
	299	-	-	299
Financial Liabilities				
Trade and other payables	224	-	-	224
Borrowings	-	-	20,656	20, 656
	224	-	20,656	20,880

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 2018 financial year.

28 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, 2018

The performance targets established in the 2018 Statement of Intent for Invercargill City Forests Limited and the results achieved for the year ended 30 June 2018 are as follows:

Parent Financial Performance Targets:

That Invercargill City Forests Limited will achieve a EBIT% - Percentage Earnings before Tax and interest on Assets Employed of 5.33%

- Achieved
- EBIT% on assets employed is 5.36%

That Invercargill City Forests Limited will achieve a Percentage of Equity to Total Assets of 31.38%

- Achieved
- Equity to total assets % is 32.64%

Parent Non-Financial Performance Targets:

Mortality rates are below 10%

- Not achieved
- The 2017 plantings at Cairn Peak and Seaward Bush have had higher mortality rates due to drought conditions. Blanking will be completed at Cairn Peak to increase the stem count.

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
- The Company aims to maintain the net stocked area of its forests above 80% to ensure future harvesting success.

All silviculture is completed in a timely manner

- Achieved
- The Company is very proud of its forests and continues to ensure standards of silviculture, road/track maintenance, weed and pest control and signage are all maintained at a high level.

Group Performance Targets:

No group performance targets were prepared in the 2017/2018 Statement of Intent. The board of Invercargill City Forests Limited are looking to include group targets in the future.

Auditor's Report

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

Independent Auditor's Report

To the readers of Invercargill City Forests Limited's group financial statements and performance information for the year ended 30 June 2018

The Auditor-General is the auditor of Invercargill City Forests Limited Group (the Group). The Auditor-General has appointed me, Ian Lothian, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements and the performance information of the Group, on his behalf.

We have audited:

- the financial statements of the Group on pages 9 to 38, that comprise the statement of financial position as at 30 June 2018, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information; and
- the performance information of the Group on page 39.

Qualified opinion

Qualified opinion on the financial statements – Our work was limited because the financial statements include unaudited information for the associate IFS Forestry Group Limited

In our opinion, except for the possible effects of the matter described in the *Basis for our qualified opinion* section of our report, the financial statements of the Group on pages 9 to 38:

- present fairly, in all material respects:
  - its financial position as at 30 June 2018; and
  - its financial performance and cash flows for the year ended; and
- comply with generally accepted accounting practice in New Zealand in accordance with the New Zealand Equivalents to International Financial Reporting Standards Reduced Disclosure Regime.

Unmodified opinion on the performance information

In our opinion, the performance information of the Group on page 39 presents fairly, in all material respects, the Group's actual performance compared against the performance targets and other measures by which performance was judged in relation to the Group's objectives for the year ended 30 June 2018.

Our audit was completed on 26 September 2018. This is the date at which our qualified opinion is expressed.

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

Basis for our qualified opinion

The Group disposed of its investment in the associate IFS Forest Group Limited (the associate) on 30 September 2017. The Group has included in the financial statements unaudited financial information for the 1 July 2017 to 30 September 2017 period (the three month period) in relation to the associate. The Group's statement of comprehensive income includes the share of associate's surplus for the three month period of $29,000 and a loss on disposal of the associate investment of $29,000 (included within administrative expenses). Further information about the associate is disclosed in Note 13 to the financial statements.

The associate is not a public entity and, as such, the Auditor-General is not its auditor. There were no satisfactory audit procedures that we could adopt to obtain sufficient evidence to confirm the financial information for the three month period relating to the associate. Any misstatements of this financial information could affect the Group's statement of comprehensive income and the associate disclosures in Note 13.

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

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

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

Responsibilities of the Board of Directors for the financial statements and the performance information

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

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

In preparing the financial statements and the performance information, the Board of Directors is responsible on behalf of the Group for assessing the Group's ability to continue as a going concern.

The Board of Directors is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless the Board of Directors intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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

Responsibilities of the auditor for the audit of the financial statements and the performance information

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

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

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

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

- We identify and assess the risks of material misstatement of the financial statements and the performance information, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.

- We evaluate the appropriateness of the reported performance information within the Group's framework for reporting its performance.

- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board of Directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty

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exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements and the performance information or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- We evaluate the overall presentation, structure and content of the financial statements and the performance information, including the disclosures, and whether the financial statements and the performance information represent the underlying transactions and events in a manner that achieves fair presentation.

- We obtain sufficient appropriate audit evidence regarding the financial statements and the performance information of the entities or business activities within the Group to express an opinion on the consolidated financial statements and the consolidated performance information. We are responsible solely for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

Our responsibilities arise from the Public Audit Act 2001.

Other information

The Board of Directors is responsible for the other information. The other information comprises the information included on pages 3 to 8, but does not include the financial statements and the performance information, and our auditor's report thereon.

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

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

Independence

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

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

Ian Lothian

Ian Lothian
Audit New Zealand
On behalf of the Auditor-General
Dunedin, New Zealand

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INVERCARGILL CITY FORESTS LTD

PRIVATE BAG 90104, INVERCARGILL 9840, NEW ZEALAND
PHONE 03 211 1777 EMAIL INFO@ICFL.CO.NZ