INVERCARGILL CITY FORESTS LIMITED

2013 ANNUAL REPORT

ICFL

INVERCARGILL CITY FORESTS LTD

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Company Directory

Directors

Mr L A Pullar (Chairman)
Mr A McKenzie
Mr N Affleck (Appointed 1 November 2011)

Chief Executive Officer

Mr D J Johnston

Registered Office

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101 Esk Street
Invercargill 9810

Postal Address

Private Bag 90104
Invercargill 9840

Phone (03) 211 1777
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Auditor

Audit New Zealand
Dunedin

Bankers

BNZ
Invercargill

Solicitors

Cruickshank Pryde
42 Don Street
Invercargill 9810

Forestry Consultant

Independent Forestry Services Limited
Winton

Chairman's Report

Along with my fellow Directors, Alastair McKenzie and Neil Affleck, it gives me great pleasure to present this Annual Report for the year ended 30 June 2013.

The financial result for the year is a very pleasing one with a $3.2 million increase in shareholders' equity which includes a $4.6 million increase in the value of the forestry asset after taking in to account a considerable amount of harvesting.

We have continued harvesting in the Dunrobin block and commenced harvesting operations at Palmerston, at Milton and a small 5 hectare block of Seaward Bush. The results from the Palmerston block have been exceptional and this is expected to continue through to completion. Replanting is following harvesting and the area currently in tussock will be planted over the next 3 years.

Dunrobin harvesting is on budget and is being replanted for a further production cycle to gauge whether this forest should be retained in the long term. The block being harvested at Milton (the Paterson block) was purchased during the year as a mature block and is adjacent to our original Milton holding. The Paterson block (61 hectares) will complete harvesting in the 2014 year together with a block of mature trees in the original forest. These two forests will in future be operated as one forest.

The returns from the small block at Seaward Bush have been excellent

The company continues to seek new forestry assets and during the year purchased two additional properties. As outlined above a further 61 hectares was purchased at Milton adjacent to our 177 hectare holding there. We also purchased 277 hectares at Whare Creek which is located on the Blackmount-Redcliffs Road in Western Southland. The operational forestry area is 234 hectares with the age class mainly in the 8-14 year categories with a further 38 hectares planted three years ago. These all fit well into the overall age-class to provide on-going harvest capability in the future.

With the purchase of these two properties the total forest resource held by the company has reached 2670 with a total stocked area of 1993 hectares. The values of the blocks compared to last year are as follows:

	$000s	**$000s**	**Hectares**
	2013	**2012**	
Cairn Peak	7,930	5,646	794
Dunrobin	524	967	625
Seaward Bush	900	384	91
Milton	2,594	1,058	177
Hedgehope	290	214	123
Palmerston	2,864	3,300	582
Whare Creek	374	-	276
Sub-total	**15,476**	**11,570**	**2,670**
Land	4,608	4,325	
Other Improvements	1,412	266	
Total Value	**21,496**	**16,161**	

Log prices, while starting the year on a low have increased markedly and, in particular our export logs are returning good prices. The fluctuation of the dollar also has a marked effect on our returns.

The Emission Trading Scheme (ETS) unit values have drifted lower and lower during the period. As stated in previous reports we have not become involved in the operation of the trading market, simply ‘cashing up’ our surplus units as they become available.

It is with much pleasure that we have confirmed the dividend for the year ending 30 June 2013 has been set at $200,000.

On behalf of Alastair and Neil I would like to thank Dan Minehan and his team from IFS Growth for a great years work. They have provided a tremendous amount of good practical information which has been invaluable in our decision-making.

To Dean Johnston and his colleagues from Invercargill City Council our thanks for a job well done. Dean has spent a lot of valuable time on forestry issues and this is very much appreciated.

Finally to our shareholder, Invercargill City Holdings Limited a big Thank You for your co-operation and support. It has been really appreciated.

The year has been a momentous one for the company and I believe it continues to have a bright future.

Les Pullar

Les Pullar
CHAIRMAN

Directors' Declaration

In the opinion of the Directors of Invercargill City Forests Limited, the financial statement and notes on pages 13 to 28:

- Comply with New Zealand Generally Accepted Accounting Practice and give a true and fair view of the financial position of the company as at 30 June 2013 and the results of its operations and cashflows for the year ended on that date.
- Have been prepared using appropriate accounting policies which have been consistently applied and supported by reasonable judgements and estimates.
- The Directors believe that proper accounting records have been kept which enable with reasonable accuracy the determination of the financial position of the company and facilitate compliance of the financial statements with the Financial Reporting Act 1993.
- The Directors consider that they have taken adequate steps to safeguard the assets of the company and to prevent and detect fraud and other irregularities. Internal control procedures are also considered to be sufficient to provide reasonable assurance as to the integrity and reliability of the financial statements.

The Directors are pleased to present the financial statements of Invercargill City Forests Limited for the year ended 30 June 2013.

For and on behalf of the Board of Directors:

L A Pullar	***A B McKenzie***
CHAIRMAN	***DIRECTOR***
20 September 2013	*20 September 2013*

Statutory Information

REMUNERATION AND OTHER BENEFITS TO DIRECTORS

Mr L A Pullar	32,400
Mr A B McKenzie	18,000
Mr N Affleck	18,000

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.
- 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

$200,000 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. The insurance does not cover liabilities arising from criminal actions.

DONATIONS

The Company has made no donations during the period.

AUDITOR'S REMUNERATION

Auditor's fees of $17,290 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, 2013

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

The Company is primarily involved in forestry activities.

The financial statements of the Company are for the year ended 30 June 2013. The financial statements were authorised for issue by the Directors on xx September 2013.

BASIS OF PREPARATION

These financial statements have been prepared in accordance with NZ GAAP. They comply with NZ IFRS and other applicable Financial Reporting Standards, as appropriate for profit-orientated entities.

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

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

The financial statements are prepared on a going concern basis, based on any deficit in year to year funding being met from Invercargill City Holdings Limited sources.

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

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 cost, amortised where necessary, 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.

FINANCIAL LIABILITIES

The Company has an intercompany loan which is recognised at cost.

TRADE AND OTHER PAYABLES

Trade and other payables are stated at cost.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consists of land and improvements. Land is held in two classes being Land and Roading Improvements.

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.

Roading Improvements are carried at depreciated historical cost.

Depreciation is provided on all property plant and equipment (except for land) carried at depreciated historical cost. Depreciation is provided at rates that will write off the cost of the assets to their estimated residual values over their useful lives. Roading Improvements are depreciated on a diminishing value basis at 6%.

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.

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.

FOREIGN CURRENCY TRANSACTIONS

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange at the reporting date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities demonimated in foreign currencies are recognised in the surplus or deficit.

DERIVATIVE FINANCIAL INSTRUMENTS

The Company uses derivative financial instruments (forward currency contracts) to hedge foreign currency risks. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into, are subsequently remeasured at fair value. Any gains or losses arising from changes in the fair value of derivatives, except for those that qualify as cash flow hedges, are taken directly to profit or loss for the year.

NEW STANDARDS ADOPTED

The Company is adhering to the following new standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 July 2012;

Amendments to NZ IAS 1 - Presentation of Financial Statements : presentation of items of other comprehensive income

The amendment requires profit or loss and other comprehensive income (OCI) to be presented, either in a single continuous statement or in two separate but consecutive statements. There is little noticeable change from the current requirements. However, the format of the OCI section is required to be changed to separate items that might be recycled from items that will not be recycled. The changes do not effect the measurement of net profit or earnings per share; however, they change the way items of OCI are presented.

This Standard also requires entities to group items presented in other comprehensive income on the basis of whether they are potentially reclassifiable to profit or loss in subsequent periods (reclassification adjustments).

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 as follows.

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.

Amendment to NZ IFRS 7 - Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities

The amendment comes into effect for fiscal years beginning on or after 1 January 2013.

These amendments introduce disclosures, which provide users with information that is useful in evaluating the effect or potential effect of netting arrangements on an entity's financial position.

The Company has not yet assessed then effect of the new standard.

Amendment to NZ IFRS 7 - Financial Instruments: Disclosures – Transitional Disclosures

The amendment comes into effect for fiscal years beginning on or after 1 January 2013.

These amendments to NZ IFRS 7 remove the requirement for the restatement of comparative period financial statements upon initial application of the classification and measurement requirements of NZ IFRS 9.

Instead, the amendments introduce additional disclosures on transition from the classification and measurement requirements of NZ IAS 39 Financial Instruments: Recognition and Measurement to those of NZ IFRS 9.

For entities adopting NZ IFRS 9 from 2013 onwards, these disclosures are required even if they choose to restate the comparative figures for the effect of applying NZ IFRS 9.

The Company has not yet assessed the effect of the new standard.

NZ IFRS 9 (2009) Financial Instruments will eventually replace NZ IAS 39 Financial Instruments : Recognition and Measurement

NZ IFRS 9 Phase I was issued in November 2009 and is effective for the financial statements issued for the fiscal years beginning on or after I January 2015.

NZ IAS 39 is being replaced through the following 3 main phases: Phase 1 Classification and Measurement, Phase 2 Impairment Methodology, and phase 3 Hedge Accounting.

NZ IFRS 9 (2009) includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the IASB's project to replace NZ IAS 39.

These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of NZ IAS 39. The revised Standard introduces a number of changes to the accounting for financial assets, the most significant of which includes:

• two categories for financial assets being amortised cost or fair value;

• removal of the requirement to separate embedded derivatives in financial assets;

• strict requirements to determine which financial assets can be classified as amortised cost or fair value. Financial assets can only be classified as amortised cost if (a) the contractual cash flows from the instrument represent principal and interest and (b) the entity's purpose for holding the instrument is to collect the contractual cash flows;

• an option for investments in equity instruments which are not held for trading to recognise fair value changes through other comprehensive income with no impairment testing and no recycling through profit or loss on derecognition;

• reclassifications between amortised cost and fair value no longer permitted unless the entity's business model for holding the asset changes; and

• changes to the accounting and additional disclosures for equity instruments classified as fair value through other comprehensive income.

The Company has not yet assessed the effect of the new standard.

NZ IFRS 9 (2010) Financial Instruments will eventually replace NZ IAS 39 Financial Instruments : Recognition and Measurement

NZ IFRS 9 Phase I was issued in November 2010 and is effective for the financial statements issued for the fiscal years beginning on or after I January 2015.

NZ IFRS 9 (2010) supersedes NZ IFRS 9 (2009). The requirements for classifying and measuring financial liabilities were added to NZ IFRS 9 as issued in 2009. The existing NZ IAS 39 Financial Instruments: Recognition and Measurement requirements for the classification of financial liabilities and the ability to use the fair value option have been retained. However, where the fair value option is used for financial liabilities, the change in fair value is accounted for as follows:

• The change attributable to changes in credit risk are presented in other comprehensive income (OCI)

• The remaining change is presented in profit or loss

If this approach creates or enlarges an accounting mismatch in the profit or loss, the effect of the changes in credit risk are also presented in profit or loss.

The Company has not yet assessed the effect of the new standard.

NZ IFRS 13 Fair Value Measurement - Amendment

The amendment comes into effect for fiscal years beginning on or after 1 January 2013.

The amendment provides guidance on how fair value should be applied where its use is already required or permitted by other standards within IFRS, including a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRS.

The Company has not yet assessed the effect of the new standard.

Amendments to NZ IFRSs arising from the Annual Improvements Project (2009-2011) [NZ IFRS 1, NZ IAS32]

The amendments come into effect for fiscal years beginning on or after 1 January 2013.

The following standards are amended by this standard;

NZ IFRS 1

• Clarify that an entity that has stopped applying NZ IFRS may choose to either:

i. Re-apply NZ IFRS 1, even if the entity applied NZ IFRS 1 in a previous reporting period
ii. Apply NZ IFRSs retrospectively in accordance with NZ IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (i.e., as if it had never stopped applying IFRS) in order to resume reporting under NZ IFRS.

NZ IAS 32

• Clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with NZ IAS 12 Income Taxes.

The Company has not yet assessed the effect of the new standard(s).

CHANGES IN ACCOUNTING POLICIES

Except for the new 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, 2013

	Note	2013 $	2012 $
Assets			
Property, plant and equipment	6	6,019,892	4,591,426
Forestry assets	7	15,430,000	11,519,000
Total non-current assets		21,449,892	16,110,426
Cash and cash equivalents		567,554	276,627
Accounts receivable		556,709	-
Inventory		627,099	-
Current tax assets	4	1,242	2,549
Goods and services tax		55,155	24,564
Total current assets		1,807,759	303,740
Total assets		23,257,651	16,414,166
Equity			
Share capital	9	2,774,070	2,774,070
Revaluation reserves	9	1,494,236	1,494,236
Retained earnings	9	2,376,196	(656,934)
Total equity attributable to equity holders of the Company		6,644,502	3,611,372
Liabilities			
Deferred tax liability	8	2,987,636	1,725,175
Loans and borrowings – Invercargill City Holdings Ltd	10	12,585,022	10,753,294
Total non-current liabilities		15,572,658	12,478,469
Trade and other payables	5	978,182	324,325
Derivatives - foreign exchange contracts		62,309	-
Total current liabilities		1,040,491	324,325
Total liabilities		16,613,149	12,802,794
Total equity and liabilities		23,257,651	16,414,166

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, 2013

	Note	2013 $	2012 $
Revenue	1	6,419,599	1,052,022
Biological asset COGS		1,433,928	-
Forestry costs		3,914,117	694,002
Depreciation	6	37,938	17,006
Administrative expenses	2, 3	438,659	179,965
Total operating expenditure		5,824,642	890,973
Results from forestry operations		594,957	161,049
Interest income		4,744	9,291
Interest expenses		593,238	246,044
Net finance costs		(588,494)	(236,753)
Increase/(decrease) in the fair value of forestry		4,588,783	165,000
Gain/(loss) on derivatives - foreign exchange contracts		(62,309)	-
Gain/(loss) on foreign exchange rate conversion		(37,347)	-
Surplus/(deficit) before income tax		4,495,590	89,296
Income tax expense	4	1,262,460	(334,203)
Surplus/(deficit) after income tax		3,233,130	423,499
Other comprehensive income			
Increase/(decrease) in the fair value of property, plant and equipment - land		-	-
Total comprehensive income		3,233,130	423,499

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, 2013

	2013 $	2012 $
Balance at 1 July	3,611,372	3,387,873
Total comprehensive income	3,233,130	423,499
Distributions to shareholders		
Dividends paid/declared	(200,000)	(200,000)
Balance at 30 June	6,644,502	3,611,372

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, 2013

	Note	2013 $	2012 $
Cash flows from operating activities			
Cash receipts from customers		5,935,505	1,485,810
Interest revenue		4,744	9,291
Cash paid to suppliers and employees		(3,742,516)	(947,920)
Interest paid		(586,988)	(246,044)
GST (net)		(103,205)	(50,160)
Income tax paid		1,307	(2,437)
Net cash from operating activities	12	1,508,847	248,540
Cash Flows from investing activities			
Purchase of Fixed Assets		(2,849,648)	(4,626,695)
Net cash from investing activities		(2,849,648)	(4,626,695)
Cash flows from financing activities			
Proceeds from advance from Invercargill City Holdings Limited		3,741,728	5,106,045
Repayment of advance from Invercargill City Holdings Limited		(1,910,000)	(550,000)
Dividend Payment		(200,000)	(200,000)
Net cash from financing activities		1,631,728	4,356,045
Net (decrease)/increase in cash and cash equivalents		290,927	(22,110)
Cash and cash equivalents at 1 July		276,627	298,737
Cash and cash equivalents at 30 June		567,554	276,627

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.

Notes to the Financial Statements

For the year ended June 30, 2013

1 REVENUE

	2013	2012
	$	$
Carbon credits - pre 1990	78,551	-
Carbon credits - post 1989	55,979	-
Log Sales	6,276,090	1,031,932
Other	8,979	20,090
Total revenue	6,419,599	1,052,022

2 ADMINISTRATIVE EXPENSES

	2013	2012
	$	$
The following items of expenditure are included in administrative expenses:		
Auditor's remuneration to Audit New Zealand comprises:		
• audit of financial statements	17,290	10,630
Total auditor's remuneration	17,290	10,630

3 PERSONNEL EXPENSES

The Company has incurred $5,112 of personnel expense to employees (2012:$833).
The Directors fees were $68,400. (2012: $61,353)

4 INCOME TAX EXPENSE IN THE STATEMENT OF COMPREHENSIVE INCOME

	2013	2012
	$	$
Current tax expense	-	-
Adjustments to current tax in prior periods	-	(380,403)
Origination and reversal of temporary differences	1,262,460	46,200
Deferred tax expense	1,262,460	46,200
Total income tax expense	1,262,460	(334,203)

Reconciliation of effective tax rate:	2013	2012
	$	$
Surplus/(deficit) before taxation for the year	4,495,590	89,296
Income tax using the company's tax rate	1,258,765	25,003
Permanent differences	(21,994)	-
Impact of reduction in tax rates on deferred taxation	-	-
Group loss offset	28,749	21,197
	1,265,520	46,200
Under/(Over) provisions in prior years	(3,060)	(380,403)
Total income tax expense	1,262,460	(334,203)

The current tax expense is calculated on the assumption that tax losses of $102,675 with a tax benefit of $28,749 have been transferred from the company to Invercargill City Holdings Limited Group by way of group loss offset (2012: The current tax expense is calculated on the assumption that tax losses of $75,704 with a tax benefit of $21,197 have been transferred from the company to the Invercargill City Holdings Limited Group by way of group loss offset).

Imputation credits	2013	2012
	$	$
Imputation credits available for use in subsequent periods	-	-

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5 TRADE PAYABLES AND ACCRUALS

	2013 $	2012 $
Trade payables	771,391	96,903
Related party payables	206,362	200,833
Accrued expenses	429	26,589
Total trade and other payables	978,182	324,325

6 PROPERTY, PLANT AND EQUIPMENT

	Land $	Roading Improvements $	Total $
Cost/revaluation 1 July 2011	3,025,000	286,295	3,311,295
Accumulated depreciation 1 July 2011	-	(2863)	(2863)
Net book value 1 July 2011	3,025,000	-	3,308,432
Additions	1,300,000	-	1,300,000
Revaluations	-	-	-
Depreciation	-	(17,006)	(17,006)
Cost/Revaluation 30 June 2012	4,325,000	286,295	4,611,295
Accumulated Depreciation 30 June 2012	-	(19,869)	(19,869)
Net Book Value 30 June 2012	4,325,000	266,426	4,591,426
Cost/revaluation 1 July 2012	4,325,000	286,295	4,611,295
Accumulated depreciation 1 July 2012	-	(19,869)	(19,869)
Net book value 1 July 2012	4,325,000	266,426	4,591,426
Additions	727,584	738,820	1,466,404
Revaluations	-	-	-
Depreciation	-	(57,807)	(57,807)
Cost/revaluation 30 June 2013	5,052,584	1,025,115	6,077,699
Accumulated depreciation 30 June 2013	-	(57, 807)	(57, 807)
Net book value 30 June 2013	5,052,584	967,308	6,019,892

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

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. The last valuation was performed by Thayer Todd valuer's (independent valuers) as at 30 June 2012. The fair value was determined on the highest and best use of the land. The valuation was carried out on sales of comparable land, based on the Valuers sales database.

The value of the land had it been carried at the cost model would be $3,528,348 at 30 June 2013.
(2012 $2,800,764)

7 FORESTRY ASSETS

	Forestry
	$
Balance at 1 July 2011	8,054,000
Additions	3,300,000
Change in fair value less estimated point-of-sale costs	165,000
Balance at 30 June 2012	11,519,000
Balance at 1 July 2012	11,519,000
Additions	1,383,244
Forest Assets logged at cost	(1,433,928)
Forest Assets held in Inventory	(627,099)
Change in fair value less estimated point-of-sale costs	4,588,783
Balance at 30 June 2013	15,430,000

At 30 June 2013, standing timber comprised approximately 1,993 hectares of plantations at seven different locations (2012: 1,717 hectares of plantations at six different locations).

The forests were revalued as at 30 June 2013 by an independent valuer, Mr Geoff Manners of Chandler Fraser Keating Limited. The analysis includes taxation as a cost. The discount rate is the mid-point of pre-tax discount rates published by the New Zealand Institute of Forestry. The pre-tax discount rate chosen for the 2013 valuations is 9.5% (2012:11%).

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:

		$ 2013		$ 2012
Received:				
Post 1989	66,526 units	191,594	20,355 units	142,492
Pre 1990	28,564 units	78,551		-
		270,145		142,492
Sold:				
Post 1989	20,356 units	55,979		-
Pre 1990	28,564 units	78,551		-
		134,530		-

As at 30 June 2013 there are 66,526 carbon credits units on hand (2012: 20,355).

Future expected allocations are as follows:	$ 2013		$ 2012
2012 Post 1989	-		-
2013 Pre 1990	-	28,564 units	199,948
	-		199,948

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 216 hectares of pre-1990 forest. 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 deforestation liability and has to purchase NZU's on the market.

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

Climate and other risks

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

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

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

8 DEFERRED TAX LIABILITIES

Recognised deferred tax liabilities/(assets)

	2013 $ Balance at 1 July	2013 $ Recognised in comprehensive income	2013 $ Recognised in equity	2013 $ Balance at 30 June
Biological assets	1,725,175	1,284,860	-	3,010,035
Other items	-	(4,953)	-	(4,953)
Derivatives	-	(17,446)	-	(17,446)
	1,725,175	1,262,461	-	2,987,636

	2012 $ Balance at 1 July	2012 $ Recognised in comprehensive income	2012 $ Recognised in equity	2012 $ Balance at 30 June
	1,678,975	46,200	-	1,725,175
Biological assets	1,678,975	46,200	-	1,725,175

9 EQUITY

Reconciliation of movements in equity

	Attributable to equity holders of the Company			
	Share capital	Revaluation reserve	Retained earnings	Total equity
	$	$	$	$
Balance at 1 July 2011	2,774,070	1,494,236	(880,433)	3,387,873
Surplus/(deficit) after income tax	-	-	423,499	423,499
Other comprehensive income				
Increase/(decrease) in the fair value of property, plant and equipment - land	-	-	-	-
Distribution to shareholders				
Dividend paid/declared	-	-	(200,000)	(200,000)
Balance at 30 June 2011	2,774,070	1,494,236	(656,934)	3,611,372
Balance at 1 July 2011	2,774,070	1,494,236	(656,934)	3,611,372
Surplus/(deficit) after income tax	-	-	3,233,130	3,233,130
Other comprehensive income				
Increase/(decrease) in the fair value of property, plant and equipment - land	-	-	-	-
Distribution to shareholders				
Dividend paid/declared	-	-	(200,000)	(200,000)
Balance at 30 June 2012	2,774,070	1,494,236	2,376,196	6,644,502

At 30 June 2013, share capital comprised 2,774,070 ordinary, fully paid up shares with equal rights (2012: 2,774,070)

10 LOANS AND BORROWING

The term loan has been advanced by Invercargill City Holdings Limited under its multi-option facility. The current average interest rate payable is 5.58% (2012:5.926%). 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.

11 FINANCIAL INSTRUMENTS

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

Credit risk

Financial instruments which potentially subject the Company to a credit risk consist principally of cash and cash equivalents and receivables. Cash and cash equivalents are placed with high credit quality financial institutions.

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

Liquidity risk

Liquidity risk represents the Company's ability to meet its contractual obligations. The Company evaluates its liquidity requirements on an ongoing basis. The Company which is still not at harvesting phase of operations, has credit lines with its parent entity in place to finance operations until commercial harvesting of its forests is able to generate cash flows from operations.

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 7.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company sell logs to overseas markets, which require it to enter into transactions denominated in a foreign currency. The company manages the foreign exchange risk by entering into forward foreign exchange contracts for approximately 80% of projected foreign sales to manage the risk exposure.

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12 RECONCILIATION OF NET CASH FLOW FROM OPERATING ACTIVITIES WITH REPORTED OPERATING SURPLUS

	2013 $	2012 $
Surplus/(deficit) after tax	3,233,130	423,499
Add back Non-Cash items		
Gain/loss on Derivative Financial Assets	62,309	-
Biological asset COGS	1,433,928	-
Depreciation	37,938	17,006
Deferred taxation	1,262,460	46,200
Change in fair value of forestry assets	(4,588,783)	(165,000)
	(1,792,148)	(101,794)
Add/(less) movement in other working capital		
(Increase)/Decrease in receivables	(484,094)	433,788
Increase/(Decrease) in taxation payable	1,307	(382,840)
Increase/(Decrease) in creditors and accruals	653,857	(73,953)
(Increase)/Decrease in GST	(103,205)	(50,160)
	67,865	(73,165)
Net cash inflow (outflow)	1,508,847	248,540

13 TRANSACTIONS WITH RELATED PARTIES

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

	2013 $	2012 $
(a) Invercargill City Holdings Limited		
Revenue		
Provision of services	-	-
Expenditure		
Provision of services and interest payments	644,391	5,343
Dividends from Subsidiary to Parent	200,000	200,000
Loan balance outstanding to Invercargill City Holdings	12,585,022	10,753,294
Outstanding at balance date by Invercargill City Holdings	-	-
Outstanding at balance date to Invercargill City Holdings	6,250	-

	2013 $	2012 $
(b) Invercargill City Council		
Revenue		
Provision of services	-	-
Expenditure	-	-
Provision of services	5,834	18,242
Outstanding at balance date by Invercargill City Council	-	-
Outstanding at balance date to Invercargill City Council	-	-

The Company's current tax expense is calculated on the assumption that tax losses are offset from the Invercargill City Holdings Limited Group to the company of $102,675 (2012: offset from the company $75,704) with a tax benefit of $28,749 (2012: $21,197).

No related party debts have been written off or forgiven during the year.

Key management personnel compensation comprises:	2013 $	2012 $
Short term employment benefits	5,112	833
Directors Fees	68,400	61,353

Short term employee benefits relate to the CEO's salary.

14 POST BALANCE DATE EVENTS

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

15 CONTINGENT ASSETS AND LIABILITIES

Contingent assets: (refer note 7)

2013 Year: Nil

2012 Year: Pre-1990 Carbon Credits: Invercargill City Forests Limited has been allocated 28,564 ($199,948) of Pre-1990 Carbon Credits as at 30 June 2012 contingent upon the holding account with Ministry of Agriculture and Fisheries being approved.

2012 Year: Post-1989 Carbon Credits: Invercargill City Forests Limited has been allocated 20,356 ($142,492) of Post-1989 Carbon Credits as at 30 June 2012 which are on hand. These carbon credits are recognised as assets at cost (being nil value) and the value disclosed in this note is contingent upon the market price at the time of sale.

Contingent liabilities:

Invercargill City Forests has harvested a total of 216 hectares of pre-1990 forest in Dunrobin Forest. This harvested land will be replanted by 1 September 2013 but at balance date carried a potential deforestation liability of $409,140. At 30 June 2012 Invercargill City Forests had harvested a total of 84 hectares of pre-1990 forest in Dunrobin Forest and all of this had been replanted. It is Invercargill City Forests Limited's intention to replant all forests. Refer note 7.

16 COMMITMENTS

There are no commitments as at 30 June 2013 (2012: Nil).

17 PERFORMANCE MEASURES

The performance targets established in the 2013 Statement of Intent and the results achieved for the year ended 30 June 2013 are as follows:

Financial: That Invercargill City Forests Limited will achieve a EBIT% - Percentage Earnings before Tax and interest on Assets Employed of 26.58% and a Percentage of Equity to Total Assets of 44.37%.

- Not achieved.
- EBIT% on assets employed is 21.86% and Equity to total assets % is 28.57%.

Non Financial:

Mortality rates are below a set rate.
- Achieved.
- The mortality rates on new plantings have been less than 1%

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 a set percentage.
- 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

Independent Auditor's Report

To the readers of
Invercargill City Forests Limited's
financial statements and statement of service performance
for the year ended 30 June 2013

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

We have audited:

- the financial statements of the company on pages 7 to 27, that comprise the statement of financial position as at 30 June 2013, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information; and
- the statement of service performance of the company on page 28.

Opinion

Financial statements and statement of service performance

In our opinion:

- the financial statements of the company on pages 7 to 27:
  - comply with generally accepted accounting practice in New Zealand;
  - give a true and fair view of the company's:
    - financial position as at 30 June 2013; and
    - financial performance and cash flows for the year ended on that date; and

- the statement of service performance of the company on page 28:
  - complies with generally accepted accounting practice in New Zealand; and
  - gives a true and fair view of the company's service performance achievements measured against the performance targets adopted for the year ended 30 June 2013.

Other legal requirements

In accordance with the Financial Reporting Act 1993 we report that, in our opinion, proper accounting records have been kept by the company as far as appears from an examination of those records.

Our audit was completed on 28 September 2013. This is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and our responsibilities, and explain our independence.

Basis of opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and carry out our audit to obtain reasonable assurance about whether the financial statements and statement of service performance are free from material misstatement.

Material misstatements are differences or omissions of amounts and disclosures that, in our judgement, are likely to influence readers' overall understanding of the financial statements and statement of service performance. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements and statement of service performance. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements and statement of service performance whether due to fraud or error. In making those risk assessments; we consider internal control relevant to the preparation of the company's financial statements and statement of service performance that give a true and fair view of the matters to which they relate. We consider internal control in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.

An audit also involves evaluating:

- the appropriateness of accounting policies used and whether they have been consistently applied;
- the reasonableness of the significant accounting estimates and judgements made by the Board of Directors;
- the adequacy of all disclosures in the financial statements and statement of service performance; and
- the overall presentation of the financial statements and statement of service performance.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements and statement of service performance. In accordance with the Financial Reporting Act 1993, we report that we have obtained all the information and explanations we have required. We believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

Responsibilities of the Board of Directors

The Board of Directors is responsible for preparing financial statements and a statement of service performance that:

- comply with generally accepted accounting practice in New Zealand;
- give a true and fair view of the company's financial position, financial performance and cash flows; and
- give a true and fair view of its service performance.

The Board of Directors is also responsible for such internal control as it determines is necessary to enable the preparation of financial statements and a statement of service performance that are free from material misstatement, whether due to fraud or error. The Board of Directors is also responsible for the publication of the financial statements and statement of service performance, whether in printed or electronic form.

The Board of Directors' responsibilities arise from the Local Government Act 2002 and the Financial Reporting Act 1993.

Responsibilities of the Auditor

We are responsible for expressing an independent opinion on the financial statements and statement of service performance and reporting that opinion to you based on our audit. Our responsibility arises from section 15 of the Public Audit Act 2001 and section 69 of the Local Government Act 2002.

Independence

When carrying out the audit, we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the External Reporting Board.

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

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

ICFL

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