

# **Invercargill City Holdings Limited**

## **Interim Financial Statements**

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

***Invercargill City Holdings Limited***  
*Interim Financial Statements - Six Monthly Report*  
*For The Six Months Ended 31 December 2017*

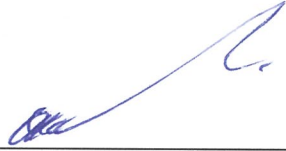
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## *Invercargill City Holdings Limited*

### *Approval By Directors*

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



Director



Director

For and on behalf of the Board of Directors

22 February 2018

### *Company Directory*

#### ***DIRECTORS***

Mr C A McCulloch (Chairman)  
Mr T D R Loan (Deputy Chairman)  
Mr L S Thomas  
Mr G D Lewis  
Mr D J Ludlow

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

Mr D J Johnston

#### ***REGISTERED OFFICE***

C/- Invercargill City Council  
101 Esk Street  
INVERCARGILL

#### ***POSTAL ADDRESS***

Private Bag 90104  
INVERCARGILL

Phone (03) 211 1777

Fax (03) 211 1433

#### ***AUDITOR***

Audit New Zealand on behalf of the  
Office of the Auditor General

#### ***BANKERS***

BNZ

#### ***SOLICITORS***

Preston Russell Law  
92 Spey Street  
INVERCARGILL

***Invercargill City Holdings Limited***

*Statement of Comprehensive Income  
For The Six Months Ended 31 December 2017*

	<i>Note</i>	<i>Group</i>	
		<i>2017</i>	<i>2016</i>
		<i>\$000</i>	<i>\$000</i>
Operating Income	<i>1</i>	20,320	20,732
Less Operating Expenses	<i>1</i>	14,510	15,820
Less Net Finance Expenses	<i>1</i>	1,671	1,950
		<hr/>	<hr/>
<b>Operating Surplus/(Deficit) Before Tax</b>		4,139	2,962
Share of Associate Surplus/(Deficit)		3,955	3,808
less Income Tax Expense		1,675	1,561
		<hr/>	<hr/>
<b>Surplus/(Deficit) After Tax</b>		<b>6,419</b>	<b>5,209</b>
		<hr/> <hr/>	<hr/> <hr/>
<b>Attributable to:</b>			
Equity holders of the company		6,418	5,205
Minority Interests		<i>1</i>	<i>4</i>
		<hr/>	<hr/>
		<b>6,419</b>	<b>5,209</b>
		<hr/> <hr/>	<hr/> <hr/>
<b>Other Comprehensive Income</b>			
Property, Plant and Equipment Revaluation gains/(losses) - pre tax		-	1,863
		<hr/>	<hr/>
<b>Total Other Comprehensive Income</b>		-	1,863
		<hr/>	<hr/>
<b>Total Comprehensive Income</b>		<b>6,419</b>	<b>7,072</b>
		<hr/> <hr/>	<hr/> <hr/>
<b>Total Comprehensive Income Attributable To:</b>			
Equity holders of the company		6,418	7,068
Minority Interests		<i>1</i>	<i>4</i>
		<hr/>	<hr/>
		<b>6,419</b>	<b>7,072</b>
		<hr/> <hr/>	<hr/> <hr/>

The accompanying accounting policies and notes form part of these financial statements

## ***Invercargill City Holdings Limited***

### *Statement of Movements in Equity For The Six Months Ended 31 December 2017*

	<i>Note</i>	<b>Group</b> <i>2017</i> <i>\$000</i>	<i>2016</i> <i>\$000</i>
Total Equity at the Beginning of the Period	2	94,643	87,246
Total Comprehensive Income for the Period	2	6,419	7,072
<i>Distributions to Shareholders</i>			
Dividends paid/declared		-	-
		<hr/>	<hr/>
Movements in Equity for the period		6,419	7,072
		<hr/>	<hr/>
<b>Total Equity at the End of the Period</b>		<b>101,062</b>	<b>94,318</b>
		<hr/> <hr/>	<hr/> <hr/>
<i>Shareholder's Equity</i>			
<i>Attributable to:</i>			
Equity holders of the company		98,183	91,441
Minority Interests		2,879	2,877
		<hr/>	<hr/>
		<b>101,062</b>	<b>94,318</b>
		<hr/> <hr/>	<hr/> <hr/>

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## *Invercargill City Holdings Limited*

### *Statement of Financial Position As At 31 December 2017*

		<i>Group</i>	
	<i>Note</i>	<i>2017</i>	<i>2016</i>
		<i>\$000</i>	<i>\$000</i>
<b>Current Assets</b>			
Cash and Cash Equivalents		3,450	2,791
Trade and Other Receivables		3,985	3,906
Inventories		5	2
Other Financial Assets	11	-	-
<b>Total Current Assets</b>		<u>7,440</u>	<u>6,699</u>
<b>Non-Current Assets</b>			
Property, Plant and Equipment	5	117,195	117,878
Investment Property		3,835	3,778
Forestry Assets		19,818	16,866
Capital Work In Progress		4,059	3,957
Other Financial Assets	11	1,500	2,000
Investments in Other Entities		118	118
Investments in Associates and Joint Ventures	11	106,644	104,670
Deferred tax asset		-	-
Derivative Financial Instruments		-	-
<b>Total Non-Current Assets</b>		<u>253,169</u>	<u>249,267</u>
<b>Total Assets</b>		<u>260,609</u>	<u>255,966</u>
<b>Current Liabilities</b>			
Trade & Other Payables		4,904	5,866
Employee Benefit Liabilities		51	41
Retentions		49	175
Taxation Payable		894	878
Borrowings	4	16,777	16,777
<b>Total Current Liabilities</b>		<u>22,675</u>	<u>23,737</u>
<b>Non-Current Liabilities</b>			
Derivative Financial Instruments		2,671	4,681
Borrowings	4	110,050	110,861
Deferred Tax Liability		24,151	22,369
<b>Total Non-current Liabilities</b>		<u>136,872</u>	<u>137,911</u>
<b>Total Liabilities</b>		<u>159,547</u>	<u>161,648</u>
<b>Equity</b>			
Share Capital	2	25,293	25,298
Retained Earnings	2	47,379	41,977
Other Reserves	2	28,390	27,043
<b>Total Equity</b>	2	<u>101,062</u>	<u>94,318</u>
<b>Equity is attributable to:</b>			
Equity holders of the company		98,183	91,441
Minority Interests		<u>2,879</u>	<u>2,877</u>
		<u>101,062</u>	<u>94,318</u>

The accompanying accounting policies and notes form part of these financial statements

***Invercargill City Holdings Limited***  
*Statement of Cash Flows*  
For The Six Months Ended 31 December 2017

	<i>Note</i>	<i>Group</i>	
		<i>2017</i>	<i>2016</i>
		<i>\$000</i>	<i>\$000</i>
<b><i>Cash Flows from Operating Activities</i></b>			
<b><i>Cash was Provided From:</i></b>			
Receipts from Customers		18,276	19,046
Interest Revenue		350	369
Dividends		-	-
		<u>18,626</u>	<u>19,415</u>
<b><i>Cash was Disbursed to:</i></b>			
Payments to Suppliers and Employees		9,903	13,298
Taxation		1,186	1,353
Interest		2,234	2,527
Depreciation Subsidy		-	-
GST (net)		(226)	(5)
		<u>13,097</u>	<u>17,173</u>
Net Cash Flow from Operating Activities	6	<u>5,529</u>	<u>2,242</u>
<b><i>Cash Flow from Investing Activities</i></b>			
<b><i>Cash was Provided from:</i></b>			
Sale of Property Plant & Equipment		(8)	1
Distributions received		3,395	2,765
Repayment of advance from Non Subsidiaries		-	1,000
Repayment of advance from Subsidiaries		587	3,014
		<u>3,974</u>	<u>6,780</u>
<b><i>Cash was Disbursed to:</i></b>			
Purchase of Property Plant & Equipment		3,182	3,362
Purchase of Biological Assets		-	-
Purchase of Work in Progress		142	181
Purchase of Short Term Investments		-	-
Purchase of Subsidiary Share Issue		-	-
Advance to Subsidiaries/Associates		4,614	945
Investment in Associates		(900)	-
Advance to Non Subsidiary		-	-
		<u>7,038</u>	<u>4,488</u>
New Cash Flow from Investing Activities		<u>(3,064)</u>	<u>2,292</u>
<b><i>Cash Flows from Financing Activities</i></b>			
<b><i>Cash was Provided from:</i></b>			
Proceeds from borrowings		<u>7,700</u>	-
		7,700	-
<b><i>Cash was Disbursed to:</i></b>			
Repayment of borrowings		7,612	-
Redemption of shares		5	-
Dividends Paid		5,300	4,000
		<u>12,917</u>	<u>4,000</u>
Net Cash Flow from Financial Activities		<u>(5,217)</u>	<u>(4,000)</u>
Net Increase/ (Decrease) in Cash Held		(2,752)	534
Plus Opening Cash Held		6,202	2,257
<b>Ending Cash Carried Forward</b>		<u><u>3,450</u></u>	<u><u>2,791</u></u>
<b>Ending Cash Carried Forward</b>			
Bank & Short Term Investments		<u>3,450</u>	2,791
		<u><u>3,450</u></u>	<u><u>2,791</u></u>

The accompanying accounting policies and notes form part of these financial statements

## *Invercargill City Holdings Limited*

### *Statement of Consolidated Accounting Policies For The Six Months Ended 31 December 2017*

#### **Statement of Accounting Policies**

##### **Reporting Entity**

Invercargill City Holdings Limited ("the Company") is a Council Controlled Organisation as defined in the Local Government Act 2002 and registered under the Companies Act 1993. The Company is wholly owned by the Invercargill City Council ("the Council").

- The Invercargill City Holdings Limited Group consists of:
- Electricity Invercargill Limited (100% owned) and its wholly owned subsidiary Pylon Limited. The Electricity Invercargill Limited Group has a balance date of 31 March
- Invercargill City Forests Limited (100% owned)
- Invercargill Airport Limited (97.2% owned)
- Invercargill City Property Limited (100% owned)

All the Group's subsidiaries and associates are incorporated in New Zealand.

The primary objective of the Company is to manage the commercial investments of the Council. Accordingly, the Company has designated itself and the group as profit orientated entities for the purposes of New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS").

The interim financial statements of the Company and Group are for the six month period ended 31 December 2017.

The interim financial statements were authorised for issue by the Board on 22 February 2018.

##### **Basis of Preparation**

These condensed interim financial statements have been prepared in accordance with International Accounting Standard (IAS) 34, Interim Financial Reporting and the New Zealand equivalents to International Accounting Standard (NZIAS) 34.

The financial statements have been prepared on a historical cost basis, modified by the revaluation of land and buildings, investments in subsidiaries and associates, investment property, biological assets and financial instruments (including derivative instruments).

The financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand dollars (\$'000).

The functional currency of the Company is New Zealand dollars.

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



## Invercargill City Holdings Limited

### Notes to the Consolidated Financial Statements For The Six Months Ended 31 December 2017

#### 1 Net Operating Profit Before Taxation

	<i>Group</i>	
	2017	2016
	\$000	\$000
<i>After Charging</i>		
Audit Fees	137	90
Depreciation and amortisation	2,833	2,798
Directors Fees	323	315
Interest	2,142	2,481
Loss on Disposal	65	16
Employee benefits expenses	490	427
<i>After Crediting</i>		
Interest Revenue	538	605

#### 2 Share Capital and Equity

<i>Equity - GROUP</i>	Share capital \$000	Cashflow Hedging reserve \$000	Revaluation Reserve \$000	Retained Earnings \$000	Total \$000
Balance at 1 July 2016	25,298	(3,370)	28,550	36,767	87,245
Surplus/(deficit) after tax	-	-	-	5,210	5,210
<i>Other comprehensive income</i>					
Property, Plant and Equipment Revaluation gains/(losses)	-	-	1,863	-	1,863
Balance at 31 December 2016	<u>25,298</u>	<u>(3,370)</u>	<u>30,413</u>	<u>41,978</u>	<u>94,318</u>
Balance at 1 July 2017	25,293	(1,923)	30,313	40,960	94,643
Surplus/(deficit) after tax	-	-	-	6,419	6,419
<i>Other comprehensive income</i>					
Property, Plant and Equipment Revaluation gains/(losses)	-	-	-	-	-
Balance at 31 December 2017	<u>25,293</u>	<u>(1,923)</u>	<u>30,313</u>	<u>47,380</u>	<u>101,062</u>

The Company has 17,398,202 ordinary shares that have been called and a further \$100,000,000 (2016: \$100,000,000) of ordinary shares that have been issued to the Invercargill City Council (67,427,000 for \$1 each and 5,211,680 for \$6.25 each) but remain uncalled.

All shares, whether called or uncalled, have equal voting rights and have no par value.

## *Invercargill City Holdings Limited*

### *Notes to the Consolidated Financial Statements For The Six Months Ended 31 December 2017*

#### **3 Financial Instruments**

Invercargill City Holdings Limited provides services to the businesses in the group and the shareholder, co-ordinates access to domestic financial markets and monitors and manages financial risks relating to the group.

Financial instruments are recognised at fair value annually effective 30 June.

##### **Capital management**

The group's capital includes share capital, reserves and retained earnings.

The group manages its capital to ensure that entities in the group will be able to continue as a going concern while maximising return to stakeholders through the optimisation of the debt and equity balance.

The objective of the group from the parent company's Statement of Intent is to provide reasonable returns to the shareholder, while acting generally as a responsible corporate citizen and in accordance with sound business practice, by having regard to the interests of the community.

The board monitors the performance of the subsidiary companies in the group, to meet the objectives while maintaining a strong capital base to sustain future development of the group's businesses.

The intentions of the parent company in respect of distributions for each three year period are disclosed in the annual Statement of Intent submitted to council in public.

##### **Financial Instruments - Risk**

The Group has exposure to the following risks from its use of financial instruments:

- **Credit risk**
- **Liquidity risk**
- **Market risk.**

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

The Company has a series of policies to manage the risks associated with financial instruments. The Company is risk averse and seeks to minimise exposure from its treasury activities. The Company has established Company approved Liability Management and Investment policies. These policies do not allow any transactions that are speculative in nature to be entered into.

Financial Instrument risk management policies adopted are consistent with those followed in the preparation of the Group's Financial Statements for the year ended 30 June 2017.

##### **Fair Value measurement**

Financial instruments that are measured subsequent to initial recognition at fair value, grouped into levels 1 to 3 based on the degree to which the fair value is observable:

Level 1 - fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 - fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)

Level 3 - fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs)

The Company carries interest rate swaps (derivative financial instruments) at fair value. These instruments are included in Level 2 of the fair value measurement hierarchy. Interest rate swaps are held with financial institutions with investment grade credit ratings. Interest rate derivative fair values are valued using swap model valuation techniques using present value calculations. The key inputs include interest rate curves and forward rate curves.

***Invercargill City Holdings Limited***  
*Notes to the Consolidated Financial Statements*  
*For The Six Months Ended 31 December 2017*

The Group's biological assets were valued by external valuation on the basis of fair value in accordance with The New Zealand Institute of Forestry (NZIF) valuation guidelines. The discounted cash flow (DCF) method is used with the exception of development forests where a compound cost basis is used. The valuation excludes funding and taxation. The discount rate is based on the mid-point of the valuers analysis of the implied pre-tax discount rates from actual transactions. The pre-tax discount rate chosen for the 2017 valuation is 7.5% (2016: 8.0%). The cash flow term for the valuation is 32 years.

The Group's network assets are valued by external valuation on the basis of fair value using the discounted cash flow (DCF) method. The network assets are revalued every five years. The key inputs include discount rate, growth rate and future cash flows. The cash flow term for the valuation is 3 years.

The Group's investment properties are valued by external valuation on the basis of fair value using open market evidence with the exception of two properties that are planned to be replaced within the next year (2016: one year), where a discounted cash flow (DCF) method is used. The investment properties are revalued annually. The key inputs include yield sensitivity being 8.0% for 2017 (2016: 9.3%)

There have been no transfers between the levels of the fair value hierarchy.

**4 Borrowings**

	<i>Group</i>	
	<i>2017</i>	<i>2016</i>
	<i>\$000</i>	<i>\$000</i>
<i>Current</i>		
Redeemable preference shares	<u>16,777</u>	<u>16,777</u>
Total current borrowings	<u>16,777</u>	<u>16,777</u>
<i>Non-current</i>		
Secured loans	<u>110,050</u>	<u>110,861</u>
Total non-current borrowings	<u>110,050</u>	<u>110,861</u>
Total Borrowing	<u>126,827</u>	<u>127,638</u>

Secured loans of the Company are secured against assets, undertakings and uncalled capital of the Group.

The weighted average interest rate for the multi-option note facility was 4.39% (2016: 4.53%).

The total borrowing facility of \$100m (2016: \$90m) of \$35m for two years and \$65m for three years commenced on 5 September 2016. Debt may be raised by a committed cash advance facility or by the issuance of promissory notes upon the multi-option note facility for a term of 90 days before being re-tendered.

The redeemable preference shares bear no interest or dividend payable unless the Directors of the Company are notified by the holders of the shares prior to 31 August of each year that payment is required. The rate determined shall not exceed 5% above the ninety (90) day Bank Bill Settlement Rate as quoted on the Reuters Monitor screen page BKBM on the date fixed for redemption.

On a return of assets on liquidation or otherwise the assets of the Company available for distribution amongst its members shall be applied first in repaying the holders of the Redeemable Preference Shares the amounts paid up on the Redeemable Preference Shares, and the balance of such assets subject to any special rights which may be attached to any other class of shares shall be distributed in accordance with the Company's Constitution.

## *Invercargill City Holdings Limited*

### *Notes to the Consolidated Financial Statements For The Six Months Ended 31 December 2017*

The following is a list of the loans outstanding by the **Parent Company** at 31 December 2017:

The aging profile and interest rate below is based on the derivative interest rate SWAPS that the company has contracted to fix the term and interest rate on the borrowings, for the following nominal amounts of the borrowings.

	<b>\$000</b>
Due in 0-1 year (Floating Rate)	35,050
Due in 0-1 year (Fixed Rate)	6,500
Total due in 0-1 year	41,550
Due in 1-2 years (Fixed Rate)	19,000
Due in 2-3 years (Fixed Rate)	3,500
Due in 3-4 years (Fixed Rate)	24,000
Due in 4-5 years (Fixed Rate)	8,000
Due in 5-6 years (Fixed Rate)	9,000
Due in 6-7 years (Fixed Rate)	5,000
Due in 7-10 years (Fixed Rate)	
Total Secured Bank loans	110,050
<i>Redeemable Preference Shares fully paid</i>	16,777
Total Borrowings	126,827

#### **5 Property, Plant and Equipment - Additions and Disposals**

	<i>Group</i>	
Movements of fixed assets:	<i>2017</i>	<i>2016</i>
	<b>\$000</b>	<b>\$000</b>
Additions	3,204	3,363
Disposals	(80)	(19)

#### **6 Reconciliation of net surplus / (deficit) to net cash inflows (outflows) from operating activities**

	<i>Group</i>	
	<i>2017</i>	<i>2016</i>
	<b>\$000</b>	<b>\$000</b>
<b>Reconciliation with reported operating surplus</b>		
Net surplus after tax	6,419	5,209
<b>Add/(deduct) non-cash items:</b>		
Depreciation	2,832	2,798
Net (profit)/loss on sale of fixed assets	65	17
Change in fair value of biological assets	(1,105)	(860)
Biological assets - Cost of Goods Sold	1,154	1,253
Increase/(decrease) in deferred taxation	173	336
Associate post-acquisition profits	(3,955)	(3,808)
<b>Add/(less) movements in working capital:</b>		
(Increase)/decrease in receivables	(1,252)	(1,272)
(Increase)/decrease in inventories	(3)	-
Increase/(decrease) in accounts payable and accruals	961	(1,175)
Increase/(decrease) in GST/taxation	240	(256)
<b>Net cash inflow (outflow) from operating activities</b>	5,529	2,242

***Invercargill City Holdings Limited***  
*Notes to the Consolidated Financial Statements*  
*For The Six Months Ended 31 December 2017*

**7 Seasonality**

The groups revenues and profits are generally evenly distributed throughout the year, hence the results are not subject to seasonality.

**8 Events After Balance Date**

There were no significant events after balance date which would materially affect these financial statements.

**9 Capital Commitments**

There were no capital commitments which would materially affect these 31 December 2017 six monthly financial statements, except for:

Invercargill Airport Limited has capital expenditure contracted for but not yet incurred for property, plant and equipment of \$0 (\$2016: \$348,000).

Electricity Invercargill Limited has capital expenditure contracted for but not yet incurred for property, plant and equipment of \$2,911,000 (\$2016: \$1,546,000).

**10 Contingent Liabilities**

There were no contingent liabilities which would materially affect these 31 December 2017 six monthly financial statements, except for:

Electricity Invercargill Limited has a contingent liability as at 30 September 2017 of \$415,000 (\$2016: \$415,000). This liability relates to an agreement with Smart Co for the Company to provide a subordinated loan to Smart Co once a number of terms have been met.

**11 Investments**

	<i>Group</i>	
	<i>2017</i>	<i>2016</i>
	<i>\$000</i>	<i>\$000</i>
<i>Non-current investments - Assets</i>		
Loans to non subsidiaries	1,500	2,000
Loans to associates and joint ventures	21,956	18,359
Investments in associates	3,160	5,058
Investments in joint ventures	81,528	81,253
Total non-current investments	<u>108,144</u>	<u>106,670</u>
<i>Current investments - Assets</i>		
Loans to non subsidiaries	-	-
Total current investments	<u>-</u>	<u>-</u>
Total investments - Assets	<u><u>108,144</u></u>	<u><u>106,670</u></u>