



Invercargill City Holdings Limited

Interim Financial Statements

For the Six Months Ended 31 December 2018

Invercargill City Holdings Limited

***Interim Financial Statements - Six Monthly Report
For the Six Months Ended 31 December 2018***

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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 2018



Director



Director

For and on behalf of the Board of Directors

26 February 2019

Company Directory

DIRECTORS

Mr B J Wood (Chairman)
Mr T D R Loan (Deputy Chairman)
Mr L S Thomas
Mr G D Lewis
Mr D J Ludlow

GENERAL MANAGER

Mr A R Cameron

REGISTERED OFFICE

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AUDITOR

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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 2018*

	<i>Note</i>	Group	
		2018	2017
		\$000	\$000
Operating Income	<i>1</i>	28,016	20,320
Less Operating Expenses	<i>1</i>	21,883	14,510
Less Net Finance Expenses	<i>1</i>	1,593	1,671
		<hr/>	<hr/>
Operating Surplus/(Deficit) Before Tax		4,540	4,139
Share of Associate Surplus/(Deficit)		3,332	3,955
less Income Tax Expense		1,853	1,675
		<hr/>	<hr/>
Surplus/(Deficit) After Tax		6,019	6,419
		<hr/> <hr/>	<hr/> <hr/>
Attributable to:			
Equity holders of the company		6,006	6,418
Minority Interests		13	1
		<hr/>	<hr/>
		6,019	6,419
		<hr/> <hr/>	<hr/> <hr/>
Other Comprehensive Income			
Property, Plant and Equipment Revaluation gains/(losses) - pre tax		-	-
		<hr/>	<hr/>
Total Other Comprehensive Income		-	-
		<hr/>	<hr/>
Total Comprehensive Income		6,019	6,419
		<hr/> <hr/>	<hr/> <hr/>
Total Comprehensive Income Attributable To:			
Equity holders of the company		6,006	6,418
Minority Interests		13	1
		<hr/>	<hr/>
		6,019	6,419
		<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 2018

	<i>Note</i>	Group 2018 \$000	2017 \$000
Total Equity at the Beginning of the Period	2	104,429	94,643
Total Comprehensive Income for the Period	2	6,019	6,419
<i>Distributions to Shareholders</i>			
Dividends paid/declared		(3,850)	-
		<hr/>	<hr/>
Movements in Equity for the period		2,169	6,419
		<hr/>	<hr/>
Total Equity at the End of the Period		106,598	101,062
		<hr/> <hr/>	<hr/> <hr/>
<i>Shareholder's Equity</i>			
<i>Attributable to:</i>			
Equity holders of the company		104,864	98,183
Minority Interests		1,734	2,879
		<hr/>	<hr/>
		106,598	101,062
		<hr/> <hr/>	<hr/> <hr/>

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

Invercargill City Holdings Limited

Statement of Financial Position As At 31 December 2018

	<i>Note</i>	<i>Group</i>	
		<i>2018</i>	<i>2017</i>
		<i>\$000</i>	<i>\$000</i>
Current Assets			
Cash and Cash Equivalents		5,783	3,450
Trade and Other Receivables		3,647	3,985
Inventories		6	5
Other Financial Assets		626	-
Total Current Assets		<u>10,062</u>	<u>7,440</u>
Non-Current Assets			
Property, Plant and Equipment	5	122,926	117,195
Investment Property		4,060	3,835
Forestry Assets		27,606	19,818
Capital Work In Progress		2,402	4,059
Intangible Assets		344	-
Other Financial Assets		118	1,618
Investments in Associates and Joint Ventures	11	81,852	84,689
Advances to Associates and Joint Ventures		16,153	21,955
Total Non-Current Assets		<u>255,461</u>	<u>253,169</u>
Total Assets		<u>265,523</u>	<u>260,609</u>
Current Liabilities			
Trade & Other Payables		3,935	4,904
Employee Benefit Liabilities		63	51
Retentions		49	49
Taxation Payable		394	894
Borrowings	4	16,777	16,777
Total Current Liabilities		<u>21,218</u>	<u>22,675</u>
Non-Current Liabilities			
Derivative Financial Instruments		3,208	2,671
Borrowings	4	109,750	110,050
Deferred Tax Liability		24,749	24,151
Total Non-Current Liabilities		<u>137,707</u>	<u>136,872</u>
Total Liabilities		<u>158,925</u>	<u>159,547</u>
Equity			
Share Capital	2	25,293	25,293
Retained Earnings	2	51,772	47,379
Other Reserves	2	29,533	28,390
Total Equity	2	<u>106,598</u>	<u>101,062</u>
Equity is attributable to:			
Equity holders of the company		104,864	98,183
Minority Interests		1,734	2,879
		<u>106,598</u>	<u>101,062</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 2018

	<i>Note</i>	<i>Group 2018 \$000</i>	<i>2017 \$000</i>
<i>Cash Flows from Operating Activities</i>			
<i>Cash was Provided From:</i>			
Receipts from Customers		26,075	18,276
Interest Revenue		98	350
		26,173	18,626
<i>Cash was Disbursed to:</i>			
Payments to Suppliers and Employees		13,130	9,903
Taxation		1,418	1,186
Interest		2,135	2,234
GST (net)		(198)	(226)
		16,485	13,097
Net Cash Flow from Operating Activities	6	9,688	5,529
<i>Cash Flow from Investing Activities</i>			
<i>Cash was Provided from:</i>			
Sale of Property Plant & Equipment		4	(8)
Distributions received		3,386	3,395
Repayment of advance from Subsidiaries		-	587
		3,390	3,974
<i>Cash was Disbursed to:</i>			
Purchase of Property Plant & Equipment		3,495	3,182
Purchase of Biological Assets		4,305	-
Purchase of Work in Progress		-	142
Purchase of Intangible Assets		337	-
Advance to Subsidiaries/Associates		(344)	4,614
Investment in Associates		-	(900)
		7,793	7,038
New Cash Flow from Investing Activities		(4,403)	(3,064)
<i>Cash Flows from Financing Activities</i>			
<i>Cash was Provided from:</i>			
Proceeds from borrowings		5,000	7,700
		5,000	7,700
<i>Cash was Disbursed to:</i>			
Repayment of borrowings		4,825	7,612
Redemption of shares		-	5
Dividends Paid		3,850	5,300
		8,675	12,917
Net Cash Flow from Financial Activities		(3,675)	(5,217)
Net Increase/ (Decrease) in Cash Held		1,610	(2,752)
Plus Opening Cash Held		4,173	6,202
Ending Cash Carried Forward		5,783	3,450
Ending Cash Carried Forward			
Bank & Short Term Investments		5,783	3,450
		5,783	3,450

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 2018

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 2018.

The interim financial statements were authorised for issue by the Board on 26 February 2019.

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, 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 2018.

Invercargill City Holdings Limited

Notes to the Consolidated Financial Statements For the Six Months Ended 31 December 2018

1 Net Operating Profit Before Taxation

	<i>Group</i>	
	2018	2017
	\$000	\$000
<i>After Charging</i>		
Audit Fees	135	137
Depreciation and amortisation	2,924	2,833
Directors Fees	325	323
Interest	2,180	2,142
Loss on Disposal	94	65
Employee benefits expenses	457	490
<i>After Crediting</i>		
Interest Revenue	570	538

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 2017	25,293	(1,923)	30,313	40,960	94,642
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>101,061</u>
Balance at 1 July 2018	25,293	(2,311)	31,844	49,602	104,429
Surplus/(deficit) after tax	-	-	-	6,019	6,019
<i>Other comprehensive income</i>					
Property, Plant and Equipment Revaluation gains/(losses)	-	-	-	-	-
<i>Distributions to Shareholders</i>					
Dividends to equity holders	-	-	-	(3,850)	(3,850)
Balance at 31 December 2018	<u>25,293</u>	<u>(2,311)</u>	<u>31,844</u>	<u>51,772</u>	<u>106,598</u>

The Company has 17,398,202 ordinary shares that have been called and a further \$100,000,000 (2017: \$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 2018

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 2018.

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 2018

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 2018 valuation is 6.75% (2017: 7.5%). 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 (2017: 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 2018 (2017: 8.0%)

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

4 Borrowings

	<i>Group</i>	
	<i>2018</i>	<i>2017</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>109,750</u>	<u>110,050</u>
Total non-current borrowings	<u>109,750</u>	<u>110,050</u>
Total Borrowing	<u>126,527</u>	<u>126,827</u>

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

The effective interest rate for the multi-option note facility was 4.08% (2017: weighted average interest rate 4.39%).

The total borrowing facility of \$100m (2017: \$100m) 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 2018

The following is a list of the loans outstanding by the **Parent Company** at 31 December 2018:

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.

	\$000
Due in 0-1 year (Floating Rate)	28,050
Due in 0-1 year (Fixed Rate)	4,000
Total due in 0-1 year	32,050
Due in 1-2 years (Fixed Rate)	8,500
Due in 2-3 years (Fixed Rate)	9,000
Due in 3-4 years (Fixed Rate)	8,000
Due in 4-5 years (Fixed Rate)	9,000
Due in 5-6 years (Fixed Rate)	5,000
Due in 6-7 years (Fixed Rate)	5,000
Due in 7-10 years (Fixed Rate)	-
<i>Total Secured Bank loans</i>	76,550
<i>Redeemable Preference Shares fully paid</i>	16,777
<i>Invercargill City Council</i>	33,200
Total Borrowings	126,527

5 Property, Plant and Equipment - Additions and Disposals

	<i>Group</i>	
Movements of fixed assets:	<i>2018</i>	<i>2017</i>
	\$000	\$000
Additions	2,700	3,204
Disposals	(97)	(80)

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

	<i>Group</i>	
	<i>2018</i>	<i>2017</i>
	\$000	\$000
Reconciliation with reported operating surplus		
Net surplus after tax	6,019	6,419
Add/(deduct) non-cash items:		
Depreciation	2,924	2,832
Net (profit)/loss on sale of fixed assets	94	65
Change in fair value of biological assets	(1,149)	(1,105)
Biological assets - Cost of Goods Sold	1,813	1,154
Increase/(decrease) in deferred taxation	426	173
Associate post-acquisition profits	(3,332)	(3,955)
Add/(less) movements in working capital:		
(Increase)/decrease in receivables	(1,176)	(1,252)
(Increase)/decrease in inventories	4,701	(3)
Increase/(decrease) in accounts payable and accruals	(767)	961
Increase/(decrease) in GST/taxation	135	240
Net cash inflow (outflow) from operating activities	9,688	5,529

Invercargill City Holdings Limited

Notes to the Consolidated Financial Statements For the Six Months Ended 31 December 2018

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 Commitments

Capital Commitments

Electricity Invercargill Limited has capital expenditure contracted for but not yet incurred for property, plant and equipment of \$2,103,000 (\$2017: \$2,911,000).

Investment Commitments

In September 2017, the Electricity Invercargill Limited Group entered into a conditional agreement with the partners of Southern Generation Ltd Partnership to purchase the assets of two hydro generation developments upon completion of construction. The Upper Fraser hydro station is expected to generate approximately 30 GWh from March 2019, and the Matiri hydro station is expected to generate approximately 28 GWh annually from October 2019.

Other Commitments

The Group has a conditional commitment as at 30 September 2018 of \$415,000 (\$2017: \$415,000). This relates to an agreement with Smart Co for the Group to provide a subordinated loan to Smart Co once a number of terms have been met.

10 Contingent Liabilities

There were no contingent liabilities which would materially affect these 31 December 2018 six monthly financial statements, except for:

Invercargill City Forests had entered into a contract to purchase a 177 hectare forestry right in the Nelson region. Settlement occurred in January 2019.

11 Investments

	<i>Group</i>	
	<i>2018</i>	<i>2017</i>
	\$000	\$000
<i>Non-current investments - Assets</i>		
Investments in associates	1,621	3,160
Investments in joint ventures	80,231	81,529
Total non-current investments	<u>81,852</u>	<u>84,689</u>
<i>Current investments - Assets</i>		
Loans to non subsidiaries	-	-
Total current investments	<u>-</u>	<u>-</u>
Total investments - Assets	<u><u>81,852</u></u>	<u><u>84,689</u></u>