



Independent auditor's report to the Beneficiaries of Lake Taupo Forest Trust Report on the audit of the financial statements

Qualified opinion

We have audited the financial statements of Lake Taupo Forest Trust ("the Trust") and its subsidiaries ("the Group") on pages 1 to 23, which comprise the balance sheet of the Group as at 30 June 2020, and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended of the Group, and the notes to the financial statements including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion section of our report, the financial statements on pages 1 to 23 present fairly, in all material respects, the financial position of the Group as at 30 June 2020 and its financial performance and cash flows for the year then ended in accordance with New Zealand equivalents to International Financial Reporting Standards Reduced Disclosure Regime.

This report is made solely to the Trust's beneficiaries as a body. Our audit has been undertaken so that we might state to the Trust's beneficiaries those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Trust and the Trust's beneficiaries as a body, for our audit work, for this report, or for the opinions we have formed.

Basis for qualified opinion

As explained in note 10 of the financial statements, the Group's land and land improvements with a carrying value of \$84.7m are stated at the most recent Government Valuations. This may be a departure from New Zealand Equivalent to International Accounting Standard 16 (NZ IAS 16) which, when property, plant and equipment assets are subject to revaluations, requires such assets to be recorded at fair value. We have been unable to satisfy ourselves regarding the fair value of the land and land improvements and therefore are unable to quantify the effect of this possible departure from generally accepted accounting practice on the financial performance and financial position of the Group. This matter has no impact on the reported cash flows of the Group.

We conducted our audit in accordance with International Standards on Auditing (New Zealand). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We are independent of the Group in accordance with Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards)* (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Ernst & Young provides taxation advice and financial statement compilation services to the Group. We have no other relationship with, or interest in, the Group.



Those charged with governance responsibilities for the financial statements

Those charged with Governance are responsible, on behalf of the Trust, for the preparation and fair presentation of the financial statements in accordance with New Zealand equivalents to International Financial Reporting Standards Reduced Disclosure Regime, and for such internal control as those charged with governance determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, those charged with governance are responsible for assessing on behalf of the Trust the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless those charged with governance either intend to liquidate the Group or cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (New Zealand) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the External Reporting Board website: <https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-7/>. This description forms part of our auditor's report.

The logo for Ernst & Young, featuring the company name in a stylized, cursive script font.

Chartered Accountants
Wellington
22 December 2020

Lake Taupo Forest Trust and Subsidiaries

Statement of Comprehensive Income

For the year ended 30 June 2020

	Note	Group 2020 \$	Group 2019 \$
Revenue	4	29,853,712	18,863,961
Total operating revenue		29,853,712	18,863,961
Other income	5	262,445	1,033,666
Forest costs		(12,498,831)	(6,080,631)
Employee benefits expense	6c	(1,518,580)	(1,678,818)
Depreciation and amortisation expense	6b	(339,404)	(312,759)
Rental expense		(56,372)	(85,454)
Interest expense		(368,054)	(137,813)
Administration and other expenses	6a	(3,848,018)	(3,441,844)
Total operating expenses		(18,629,259)	(11,737,319)
Forest crop revaluation		54,858,804	38,203,610
Profit before income tax		66,345,702	46,363,918
Income tax expense	7	(10,376,905)	(8,138,025)
Net profit for the period		55,968,797	38,225,893
Other comprehensive income			
Intangible carbon asset revaluation gain		14,054,110	35,590,292
Land Revaluation		12,212,106	-
Financial assets at fair value through other comprehensive income		(13,534)	48,331
Other comprehensive income for the period		26,252,682	35,638,623
Total comprehensive income for the period		82,221,479	73,864,516
<i>Profit for the period is attributable to:</i>			
Non-controlling interest		863,901	975,237
Owners of the Parent		55,104,896	37,250,656
		55,968,797	38,225,893
<i>Total comprehensive income for the period is attributable to:</i>			
Non-controlling interest		1,138,863	975,237
Owners of the parent		81,082,616	72,889,279
		82,221,479	73,864,516

The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

Lake Taupo Forest Trust and Subsidiaries

Notes to the Financial Statements

Statement of Movements in Equity

For the year ended 30 June 2020

	Land revaluation reserve \$	Carbon Revaluation Reserve \$	Financial Assets at Fair Value Reserve \$	Retained earnings \$	Owners of the parent \$	Non- controlling interest \$	Total \$
Balance at 1 July 2019	8,810,004	35,590,292	48,331	306,341,025	350,789,652	13,046,252	363,835,904
Profit for the period	-	-	-	55,104,896	55,104,896	863,901	55,968,797
Other comprehensive income	11,937,144	14,054,110	(13,534)	-	25,977,720	274,962	26,252,682
TOTAL comprehensive income for the period	11,937,144	14,054,110	(13,534)	55,104,896	81,082,616	1,138,863	82,221,479
Transactions with owners							
Distributions	-	-	-	(5,000,000)	(5,000,000)	(295,255)	(5,295,254)
Balance at 30 June 2020	20,747,148	49,644,402	34,797	356,445,921	426,872,268	13,889,861	440,762,129

	Land revaluation reserve \$	Carbon Revaluation Reserve \$	Financial Assets at Fair Value Reserve \$	Retained earnings \$	Owners of the parent \$	Non- controlling interest \$	Total \$
Balance at 1 July 2018	8,810,004	-	-	274,241,432	283,051,436	12,382,353	295,433,789
Profit for the period	-	-	-	37,250,656	37,250,656	975,237	38,225,893
Other comprehensive income	-	35,590,292	48,331	-	35,638,623	-	35,638,623
TOTAL comprehensive income for the period	-	35,590,292	48,331	37,250,656	72,889,279	975,237	73,864,516
Transactions with owners							
Distributions	-	-	-	(5,151,063)	(5,151,063)	(311,338)	(5,462,401)
Balance at 30 June 2019	8,810,004	35,590,292	48,331	306,341,025	350,789,652	13,046,252	363,835,904

Lake Taupo Forest Trust and Subsidiaries

Notes to the Financial Statements

Balance Sheet

As at 30 June 2020

ASSETS

Current assets

	Note	2020 \$	2019 \$
Cash		7,556,439	3,285,425
Trade and other receivables	8	3,005,659	2,315,211
Inventory		1,200	2,200
Bank deposits		11,354,301	5,471,838
Current tax		97,411	31,760
Other current assets		20,049	23,306
Total current assets		22,035,059	11,129,740

Non-current assets

Investments	9	42,110,366	34,901,905
Property, plant and equipment	10	85,220,242	73,233,226
Forestry asset	11	331,265,581	274,216,603
Intangible software assets		25,262	14,694
Carbon intangible assets	16	37,784,402	34,322,792
Right of Use asset	15	7,014,837	-
Total non-current assets		503,420,690	416,689,220
TOTAL ASSETS		525,455,749	427,818,960

LIABILITIES

Current liabilities

Trade and other payables	12	10,017,840	6,752,630
Provisions for employee benefits		146,899	128,317
Borrowings	18	198,360	638,965
Lease liability	15	181,469	-
Unclaimed dividends		12,177,657	11,237,336
Total current liabilities		22,722,225	18,757,248

Non-current liabilities

Deferred tax liability	7	53,480,250	43,103,768
Lease Liability	15	6,751,130	-
Borrowings	18	1,740,015	2,122,040
Total non-current liabilities		61,971,395	45,225,808
TOTAL LIABILITIES		84,693,620	63,983,056

NET ASSETS

FUNDS ATTRIBUTABLE TO BENEFICIARIES

Retained earnings		356,445,921	306,341,025
Land revaluation reserve		20,747,148	8,810,004
Financial assets at fair value reserve		34,797	48,331
Carbon revaluation reserve		49,644,402	35,590,292
Beneficiaries' interests		426,872,268	350,789,652
Non-controlling interests		13,889,861	13,046,252
TOTAL EQUITY		440,762,129	363,835,904

The above Balance Sheet should be read in conjunction with the accompanying notes.

For and on behalf of the Board of Trustees, who authorised the issue of these financial statements on 18 December 2020

Chairman:



Trustee:



Lake Taupo Forest Trust and Subsidiaries

Notes to the Financial Statements

Cash Flow Statement

For the year ended 30 June 2020

	Note	Group 2020 \$	Group 2019 \$
<i>Cash flows from operating activities</i>			
Cash was provided from:			
Receipts from customers		32,876,952	19,129,213
Interest Received		746,753	1,106,946
Dividends Received		160,415	280,580
Income Tax Received (Paid)		(66,074)	8,377
		33,718,046	20,525,116
<i>Cash was applied to:</i>			
Payments to suppliers		(15,777,487)	(10,839,159)
Payments to Employees		(1,499,997)	(1,690,989)
Interest paid		(368,054)	(137,813)
Grants paid to Charitable Trust		(443,152)	(290,913)
GST paid		(2,265,033)	(1,328,727)
		(20,353,723)	(14,287,601)
Net cash inflow from operating activities		13,364,323	6,237,515
<i>Cash flows from investing activities</i>			
Cash was provided from / (applied to):			
Net purchases of property, plant and equipment		(124,883)	(201,894)
Forest investment		(2,190,174)	(1,585,809)
Proceeds from carbon disposal		10,592,500	1,267,500
Net purchases of investments		(12,842,013)	(3,379,571)
Net cash outflow applied to investing activities		(4,564,570)	(3,899,774)
<i>Cash flows from financing activities</i>			
Cash was provided from / (applied to):			
Related parties		648,824	431,865
Borrowing repayments		(822,630)	(872,000)
Distribution payments		(4,354,933)	(4,622,036)
Net cash outflow applied to financing activities		(4,528,739)	(5,062,171)
Net increase/(decrease) in cash held		4,271,014	(2,724,430)
Balance 1 July		3,285,425	6,009,855
Balance as at 30 June		7,556,439	3,285,425

The above Cash Flow Statement should be read in conjunction with the accompanying notes.

Lake Taupo Forest Trust and Subsidiaries

Notes to the Financial Statements

1 CORPORATE INFORMATION

Reporting entity

The financial statements of Lake Taupō Forest Trust (the 'Trust') and subsidiaries ('the Group') for the year ended 30 June 2020 were authorised for and on behalf of the Trustees on 18 December 2020.

Lake Taupō Forest Trust (the Parent) was established in New Zealand. It is an Ahu Whenua Trust under the Te Ture Whenua Maori Act 1993 and the financial statements of the Group have been prepared in accordance with that Act.

The nature of the operations and principal activities of the Group is to manage forests on behalf of the beneficial landowners.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The Group financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand ("NZ GAAP") and the requirements of the Te Ture Whenua Maori Act 1993.

The financial statements comply with New Zealand equivalents to international Financial Reporting Standards ("NZ IFRS") and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities.

For the purposes of complying with NZ GAAP, the Group is eligible to apply Tier 2 For-Profit Accounting Standards (New Zealand equivalents to International Financial Reporting Standards – Reduced Disclosure Regime ("NZ IFRS RDR")) on the basis that it does not have public accountability and is not a large For-Profit Public-Sector Entity. The Group has elected to report in accordance with NZ IFRS RDR and has applied disclosure concessions.

The financial statements have been prepared on a historical cost basis except for forest crop, carbon intangible assets, financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income which are carried at fair value.

The financial statements comply with NZ IFRS RDR except that land and improvements is carried at Government Valuation rather than fair value as required by NZ IAS 16 *Property, plant and equipment*.

The financial statements are presented in New Zealand dollars and all values are rounded to the nearest dollar.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Trust and its subsidiaries as at 30 June each year.

Subsidiaries are all those entities over which the Group has the power to govern the financial and operating policies to obtain the benefit from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

In preparing the consolidated financial statements, all intergroup balances and transactions, income and expenses and profit and losses resulting from intra-group transactions have been eliminated in full.

Subsidiaries are fully consolidated from the date on which control is obtained by the Group and cease to be consolidated from the date on which control is transferred from the Group.

Lake Taupo Forest Trust and Subsidiaries

Notes to the Financial Statements

The acquisition of subsidiaries is accounted for using the purchase method of accounting. The purchase method of accounting involves allocating the cost of the business combination to the fair value of the assets acquired and the liabilities assumed at the date of acquisition.

Non-controlling interests not held by the Group are allocated their share of net profit after tax in the statement of comprehensive income and are presented within beneficiaries' interests in the consolidated balance sheet, separately from the parent's interests.

Foreign Currency Translation

Functional and presentation currency

Both the functional and presentation currency of the Lake Taupō Forest Trust and its subsidiaries is New Zealand dollars (\$).

Translation and balances

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date.

All exchange differences in the consolidated financial statements are taken to profit or loss.

Property, plant and equipment

Land and land improvements are stated at Government valuation. Buildings and improvements, office equipment, furniture fittings and plant are stated at cost less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred. Similarly, when each major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement only if it is eligible for capitalisation. All other repairs and maintenance are recognised in profit or loss as incurred.

Depreciation on property, plant and equipment is calculated on a straight-line basis using the following rates:

Land	not depreciated
Land Improvements	2 – 5 %
Buildings & Improvements	2 – 24 %
Office Equipment	24 – 67%
Furniture & Fitting & Plant	5 – 40%

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognised.

Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Lake Taupo Forest Trust and Subsidiaries

Notes to the Financial Statements

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

The right-of-use assets are also subject to impairment. Refer to the impairment of non-financial assets accounting policy.

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate.

Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

Lake Taupo Forest Trust and Subsidiaries

Notes to the Financial Statements

Impairment of non-financial assets

Non-financial assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets (cash-generating units).

Intangible Carbon Asset

Carbon intangible assets comprise carbon credits owned by the Trust, or New Zealand Emission Units (NZUs). The NZUs are an intangible asset which are attributable to the forest land which was forested pre-1990 and which are separately identifiable from the forest land. The asset is recognised in the Statement of Financial Position at fair value upon initial recognition, when the asset becomes receivable. The intangible assets are subsequently measured at fair value.

The asset is deemed to have an indefinite useful life, and consequently is not amortised. Based on analysis of all the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows, as the economic benefits of units are not consumed while the units are held, but are realised by either surrendering units to settle obligations incurred through harvest or selling units to a third party.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the assets) is included in profit or loss in the year the asset is derecognised.

Any revaluation increment on revaluation of NZUs is recognised in other comprehensive income, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss, in which case the increase is recognised in profit or loss.

Any revaluation decrease is recognised in profit or loss, except to the extent that it offsets a previous revaluation increase for the same asset, in which case the decrease is recognised in other comprehensive income to the extent of the credit balance existing in the revaluation reserve for that asset.

Upon disposal or derecognition, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Cash and Cash Equivalents

Cash and cash equivalents in the statement of financial position comprise cash at bank and on hand and short term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through profit or loss or fair value through other comprehensive income.

Lake Taupo Forest Trust and Subsidiaries

Notes to the Financial Statements

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them.

In order for a financial asset to be classified and measured at amortised cost, it needs to give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding. The Group initially measures a financial asset at its fair value plus transaction costs.

Financial assets at amortised cost

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Group recognises an allowance for expected credit losses (ECLs) for financial assets at amortised cost. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate.

The Group applied a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognised a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on historical credit loss experience, adjusted for forward-looking factors specific to the debtors and economic environment.

The Group considers a financial asset in default when contractual payments are 60 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in profit or loss.

Financial assets at fair value through other comprehensive income

The Group has designated certain equity investments at fair value through other comprehensive income. These investments are not held for trading. Gains and losses are never recycled to profit or loss and these financial assets are not subject to an impairment assessment. The Group elected to classify irrevocably its non-listed equity instruments under this category.

Derecognition

A financial asset is derecognised when the rights to receive cash flows from the asset have expired or the Group has transferred its right to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full; and has either transferred substantially all the risks and rewards of the asset, or has transferred control of the asset.

Lake Taupo Forest Trust and Subsidiaries

Notes to the Financial Statements

Financial liabilities

After initial recognition, the Group's financial liabilities are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate method.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate method. The effective interest rate method amortisation is included within interest expense in profit or loss.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

Unclaimed Dividends

Annual distributions which are unable to be paid to owners are invested in a low risk, defensive portfolio consisting of cash and fixed interest instruments. Income generated by the portfolio is paid to Lake Taupō Charitable Trust, a related entity and is used to fund the Charitable Trust's payment of grants. The capital is only drawn on in order to pay out distributions to owners as they are located.

Revenue recognition

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Stumpage revenue

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Risks and rewards of ownership are considered passed to the buyer at the time of delivery of goods to the customer.

Interest income

Interest income is recognised as interest accrues using the effective interest method.

Dividends

Dividend income is recognised when the Group's right to receive the payment is established.

Rental revenue

Rental income is recognised on a straight-line basis over the lease term.

Income tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities based on the current period's taxable income. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition other than in a business combination of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Lake Taupo Forest Trust and Subsidiaries

Notes to the Financial Statements

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, and interest in joint ventures, except where the Group can control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that enough taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled, or the asset realised. Deferred tax is charged or credited to the Statement of Comprehensive Income.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Other taxes

Revenues, expenses, assets and liabilities are recognised net of the amount of GST except:

- ⊕ when the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- ⊕ receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

Forestry assets

Both the Trust's share of value in the Crown joint venture forest crop, and the value of the Trust's wholly owned forest crop, is stated at fair value as determined by Indufor Asia Pacific Ltd (Indufor). The basis of the valuation is the same as 2019 – being the excess of the net present value of future cash inflows from the sales of logs from the planted forest crop, over the future costs of silviculture, harvesting, transportation and marketing, with the forest valued as a single estate, combining the future management plans of the Crown Lease forest crop and the Trust-owned forest crop.

In calculating the value, Indufor applied an 7.5% discount rate to the future pre-tax cashflows.

The Trust's wholly owned crop comprises the crop on the ex-Crown lease areas, plus the Trust-owned stands on the Te Rangiiita, Te Whenua, Te Whakao, Mangakoura and Waiotaka land blocks.

The stands have been divided into crop-types, each describing a combination of the inherent productivity of the site, the type of management regime applied, and the terrain of the stand. The Crown lease stands each have their own specific crop-type, while the Trust's wholly owned stands have been divided into seven generic radiata crop-types; one Douglas fir crop-type; and one cypress crop-type.

The entire forest estate has been modelled to produce sustainable harvest volumes out into the future, and the age of harvest in any year is able to fluctuate between upper and lower limits to facilitate smooth annual harvest volume. These models indicate that total volume production can increase from the recent average of 500,000 m³/year to around 550,000 m³/year for the last three years of the Crown Lease. The harvest will then fall to approximately 450,000 m³/year when the harvesting changes from the Crown lease forest to the Trust-owned forest in 2021/22. It will take a further eight years to bring this volume back to a sustainable level of approximately 530,000 m³/year.

Lake Taupo Forest Trust and Subsidiaries

Notes to the Financial Statements

The timing convention used in the cash flows is one which assumes costs, revenues and yields occur at the beginning of the year.

Indufor has determined what log prices are assumed in the valuation, considering the long-term average prices achieved from harvesting the forest to date, and their knowledge of national and international log price trends. No real growth is assumed in log prices over time. The value is seen to be sensitive to the log prices and the discount rate assumed for the calculation. The selected prices and discount rates are appropriate for determining the current market value of the forest.

The valuation represents the value of the trees only and does not include the value of the land on which the trees are growing.

The net gain/loss arising from changes in plantation forest crop valuation is credited/debited to profit or loss.

Changes in accounting policies and disclosures

NZ IFRS 16 *Leases* ("NZ IFRS 16")

NZ IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019. The Group applied NZ IFRS 16 for the first time from 1 July 2019. The adoption results in the first set of financial statements under NZ IFRS 16 for the year ended 30 June 2020. The Trust's subsidiary, Lake Taupo Forest Management Limited ("LTFM"), does not own the land upon which its forest crop is planted. LTFM has entered into forestry leases which have a duration of 35 years, with 30 years remaining from 30 June 2020.

3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

In applying the Group's accounting policies management continually evaluates judgements, estimates and assumptions based on experience and other factors, including expectations of future events that may have an impact on the Group. All judgements, estimates and assumption made are believed to be reasonable based on the most current set of circumstances available to management. Actual results may differ from judgements, estimates and assumptions. Significant judgements, estimates and assumptions made by management in the preparation of these financial statements are outlined below:

Impairment of non-financial assets

The Group assesses impairment of all assets at each reporting date by evaluating conditions specific to the Group and to the particular asset that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves a value-in-use calculation, which incorporate several key estimates and assumptions.

Estimation of useful lives of assets

The estimation of useful lives of assets has been based on historical experience. In addition, the condition of the assets is assessed at least once per year and considered against the remaining useful life. Adjustments to useful lives are made when considered necessary.

Estimation of incremental borrowing rate of leases

The Group cannot readily determine the interest rate implicit in the lease, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no

Lake Taupo Forest Trust and Subsidiaries

Notes to the Financial Statements

observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

Forestry Valuation

The valuation of the forestry asset has been undertaken by Indufor Asia Pacific Ltd. The estimation of the value of the forest is based on three key assumptions as follows:

Cost Assumptions

Indufor is provided with a history of establishment, tending, harvesting, cartage and overhead costs dating back to 2000. Indufor's general approach to deriving applicable costs for use in the 2020 valuation has been to use an average of the previous four years' indexed costs and then compared them to the 2019 valuation assumptions and wider industry benchmarks.

Log Price Assumptions

Indufor have based initial (2019/20) log sales prices on actual sales returns for the period July 2019 to June 2020, which show revenue and volume by grade and customer. They trend these prices to their long-term price projections using a straight-line change spread over 5 years.

Discount Rate

Indufor have utilised a discounted cash flow approach on real cash flows using estate modelling to derive the market value of the tree crop. The discount rate applied was 7.5% (2019: 8.0%).

	Group 2020 \$	Group 2019 \$
4 REVENUE		
Stumpage	25,143,620	14,573,035
Weighbridge income	116,992	133,624
Interest income	746,753	1,106,946
Dividend income	160,415	280,580
Rental income	1,370,793	955,071
Administration and management services	1,269,754	1,226,576
Other	1,045,385	588,129
	29,853,712	18,863,961
	2020 \$	2019 \$
5 OTHER INCOME (EXPENSES)		
Net realised gains/(losses) on investments	(26,533)	21,666
Net unrealised gains on investments	288,978	1,012,000
	262,445	1,033,666
	2020 \$	2019 \$
6 EXPENSES		
a Administration and other expenses		
Trustee Fees	298,674	311,500
Directors Fees	82,000	82,858
Interest paid to Lake Taupō Charitable Trust	443,152	290,913
Marae Grants	170,000	175,340
Community Purpose Grants	180,000	180,000
Tangihanga Grants	252,000	216,087

Lake Taupo Forest Trust and Subsidiaries

Notes to the Financial Statements

Other	2,422,192	2,185,146
	3,848,018	3,441,844

b Depreciation, impairment and amortisation included in statement of comprehensive income

Depreciation	336,140	264,195
Amortisation	3,264	48,564
	339,404	312,759

c Employee benefits expense

Wages and salaries	1,447,550	1,551,527
Defined contribution expense	34,771	58,422
Other employee benefits expense	36,259	68,869
	1,518,580	1,678,818

7 INCOME TAX

a Income Tax Expense

The major components of income tax expense are:

	Group 2020 \$	Group 2019 \$
Current tax expense	(423)	32,179
Deferred tax expense	(10,376,482)	(8,170,204)
Total income tax expense	(10,376,905)	(8,138,025)

b Numerical reconciliation between aggregate tax expense recognised in the Statement of comprehensive income and tax expense calculated per the statutory income tax rate

A reconciliation between tax expense and the product of accounting profit before income tax multiplied by the Group's applicable income tax rate is as follows:

Accounting profit before tax from continuing operations	66,345,702	46,363,918
At the Parent's statutory income tax rate of 17.5% (2019: 17.5%)	(11,610,498)	(8,113,686)
Capital adjustment forestry royalties	2,200,067	1,275,141
Forestry revaluation adjustment	(590,634)	(1,354,697)
Other	(375,840)	55,217
Aggregate income tax expense	(10,376,905)	(8,138,025)

c Deferred tax assets and liabilities

	2020 \$	2019 \$
Opening deferred tax liability	43,103,768	34,933,564
Deferred tax expense	10,376,482	8,170,204
Closing deferred tax liability	53,480,250	43,103,768

Lake Taupo Forest Trust and Subsidiaries

Notes to the Financial Statements

	Group 2020 \$	Group 2019 \$
Deferred income tax at 30 June relates to the following:		
<i>Deferred tax liabilities</i>		
Forestry	55,431,691	44,498,256
Property, plant and equipment depreciation	-	956,164
Right of use lease asset	1,255,321	-
Gross deferred tax liability	56,687,012	45,454,420
Set-off of deferred tax assets	(3,206,762)	(2,350,652)
Net deferred tax liability	53,480,250	43,103,768
<i>Deferred tax assets</i>		
Property, plant and equipment depreciation	146,651	-
Lease liability	1,199,873	-
Tax losses	1,829,872	2,331,258
Provisions	30,366	19,394
Gross deferred tax assets	3,206,762	2,350,652

d Unrecognised temporary differences

At 30 June 2020, there are no unrecognised temporary differences associated with the Group's investments in subsidiaries or associates, as the Group has no liability for additional taxation should unremitted earnings be remitted (2019: \$nil).

8 TRADE AND OTHER RECEIVABLES

	Group 2020 \$	Group 2019 \$
Trade receivables	2,641,499	2,294,213
Other receivables	364,160	20,998
Carrying amount of trade and other receivables	3,005,659	2,315,211

Fair value and credit risk

Due to the short-term nature of these receivables, their carrying value is assumed to approximate their fair value.

The maximum exposure to credit risk is the fair value of receivables. Collateral is not held as security, nor is it the Group's policy to transfer (on-sell) receivables to special purpose entities.

9 INVESTMENTS

	Group 2020 \$	Group 2019 \$
Australasian fixed interest	27,103,276	22,743,385
Australasian equities - listed	2,508,239	2,369,110
International equities - listed	4,510,112	3,870,952
Property investments	1,332,133	1,467,404
Investment in Tuwharetoa Hau Rau	638,197	70,452
Financial assets at fair value through profit or loss	36,091,957	30,521,303

Lake Taupo Forest Trust and Subsidiaries

Notes to the Financial Statements

Financial assets at fair value through other comprehensive income

Investment in O'Riens	2,144,086	1,395,772
Investment in Ranginui Dairy	1,292,983	1,484,830

	3,437,069	2,880,602
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Financial asset at amortised cost

Bank deposits	1,081,340	-
RAL infrastructure bond	1,500,000	1,500,000

	2,581,340	1,500,000
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Total investments

	42,110,366	34,901,905
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Financial assets at fair value through profit or loss consist of fixed interest and equity investments. The Australasian and international investments expose the Group to foreign exchange risk.

The fair value of listed investments has been determined directly by reference to published price quotations in an active market.

There are no individually material investments.

10 NON-CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT

	Land	Land Improvements	Buildings & Improvements	Office Equipment	Furniture, Fittings, & Plant	Total
Opening cost	67,522,482	5,850,891	1,286,099	398,636	288,424	75,346,532
Additions	-	272,882	-	3,726	6,704	283,212
Disposals	-	(169,770)	-	-	(2,492)	(172,262)
Revaluation	12,272,106	(60,000)	-	-	-	12,212,106
Closing cost	79,794,588	5,894,003	1,286,099	402,362	292,636	87,669,688
Opening accumulated depreciation	-	(763,967)	(731,187)	(396,064)	(222,088)	(2,113,306)
Depreciation expense	-	(256,521)	(52,048)	(2,310)	(25,261)	(336,140)
Closing accumulated depreciation	-	(1,020,488)	(783,235)	(398,374)	(247,349)	(2,449,446)
Closing net book value	79,794,588	4,873,515	502,864	3,988	45,287	85,220,242

Lake Taupo Forest Trust and Subsidiaries

Notes to the Financial Statements

Revaluation of freehold land and land improvements

The Trust's policy is to use Quotable Value (formerly Valuation New Zealand) valuations for land and land improvements. Values have been brought into line with Quotable Value valuations as at 1 July 2019 which are values based on vacant possession of the land and land improvements. Because of the standing timber on the land, the unresolved issues pertaining to Maori owned land and (in respect of the leased land) the terms of the lease, the Quotable Value valuation is not the fair value of the land and land improvements.

Future Quotable Value changes to land and land improvement valuations will be recognised as notified by Quotable Value.

The land and land improvements are recognised as quoted by Quotable Value for Lake Taupō Forest Management Group's financial statements in accordance with its accounting policies. The land and land improvements have been revalued as at 1 July 2019 to comply with the Group's accounting policies.

Any sale, lease or disposition of Trust corpus land is subject to the restrictions on alienation imposed by the Te Ture Whenua Maori Act 1993.

Under the joint venture agreement with the Ministry for Primary Industry, land harvested each year is surrendered from the lease and returned to full Trust control.

11 FORESTRY ASSETS

	Group 2020 \$	Group 2019 \$
Forest Crop – Trust's share of joint venture forest - Asset at 1 July	24,337,700	36,426,950
Harvest	(12,182,804)	(14,573,035)
Current year increase in valuation	6,750,104	2,483,785
<i>Forest market value at 30 June</i>	18,905,000	24,337,700
Forest Crop – Trust's Forest - Asset at 1 July	249,878,903	198,000,233
Harvest	(12,960,816)	(465,933)
Current year increase in valuation	73,252,320	50,758,793
Capitalised costs	2,190,174	1,585,810
<i>Forest market value at 30 June</i>	312,360,581	249,878,903
Total forest crop market value at 30 June 2020	331,265,581	274,216,603

The Group holds the forestry asset for the purpose of harvest.

Lake Taupo Forest Trust and the Ministry for Primary Industries have a joint venture agreement whereby land harvested each year is surrendered from the lease and returned to full Trust control. In 2020 the Crown and Trust agreed that while the lease will expire in June 2021, the Trust will grant a forestry right to the Crown to have the arrangement extend to 2023. The Crown plans to still have around 300,000m³ of trees in the forest at June 2021, and will probably complete the harvest of this wood by June 2022, at which point the Trust will be one hundred percent owners of the 23,000-hectare forest estate. At 30 June 2020 the Trust had full control of 93.9% (2019: 90.9%) of the initial Crown lease component of the forest.

Indufor Asia Pacific Limited (an independent valuer) has calculated the Trust's share of value of the remaining hectares of joint forest crop as at 30 June 2020 at \$18,905,000 (2019: \$24,337,700). The valuation is based on the pre-tax net present value (NPV) of the future stumpage receipts, of which 35% goes to Lake Taupo Forest Trust and 65% to the Crown. In calculating the value, Indufor applied a 7.5% (2019: 8.0%) discount rate to the future cashflows.

Lake Taupo Forest Trust and Subsidiaries

Notes to the Financial Statements

	Group 2020 \$	Group 2019 \$
Valuation at 30 June – Trust Share JV Forest	18,905,000	24,337,700

The trees in the joint venture forest are all aged over 27 years. Sales of trees harvested during the current reporting period totalled 476,000m³ (2019: 527,000m³). The fair value of this harvested product was \$34,766,000 (2019: \$41,637,243) of which Lake Taupō Forest Trust received a 35% share.

The Trusts' own forest has a total stocked area of 22,623 hectares (2019: 23,712), ranging in age from 1 to 23 years. Indufor Asia Pacific Limited has valued these at 30 June 2020 at \$312,360,581 (2019: \$249,878,903). This value includes a share of a plantation investment with the Lake Rotoaira Forest Trust owning the other share on Opepe Forest Trust lands. Indufor Asia Pacific Limited has valued the Trust's share of this forest at 30 June 2020 at \$5,327,529 (2019: \$4,230,541). Also included is a plantation investment with the Lake Rotoaira Forest Trust owning the other share on Hautu Rangipō Whenua Lands called Kaimanawa Forest. Indufor Asia Pacific Limited has valued the Trust's share of this forest at 30 June 2020 at \$3,187,881 (2019: \$2,390,388).

Also included, is a share of a plantation investment with the Lake Rotoaira Forest Trust owning the other share on Tuwharetoa Settlement Trust lands being Taurewa, Waituhi and Pureora South Forests. These were purchased at 30 June 2018 at their fair value of \$3,300,000. At June 2020 these forests are valued at \$4,569,737.

	Group 2020 \$	Group 2019 \$
Valuation at 30 June Trust Owned Forest	312,360,581	249,878,903

The inputs applied in the valuation of the Trust's forest crop have been categorised as level 3 in the fair value hierarchy. The Group is exposed to financial risks in respect of agricultural activity. The agricultural activity of the Group consists of the management of forests to produce logs. The primary financial risk associated with this activity occurs due to the length of time between expending cash on the purchase or planting and maintenance of trees and on harvesting trees, and ultimately receiving cash from the sale of logs to third parties. The Group's strategy to manage this financial risk is to actively review and manage its working capital requirements. In addition, the Group maintains credit facilities at a level enough to fund the Group's working capital during the period between cash expenditure and cash inflow. The Group's investment strategy includes a Growth Portfolio of investments called the Forestry Reserve Fund which is available to support any cash flow or financial risk from Forestry. Currently this is valued at \$14.7 million (2019: \$13.2 million).

12 TRADE AND OTHER PAYABLES

	Group 2020 \$	Group 2019 \$
Trade payables	3,150,565	693,168
Accrued expenses	74,572	103,702
	3,225,137	796,870
Related party payables (b)	6,296,542	5,647,718
	6,296,542	5,647,718

Lake Taupo Forest Trust and Subsidiaries

Notes to the Financial Statements

Other payables:		
Goods and Services Tax	-	308,042
Other Current Liabilities	496,161	-
	496,161	308,042
Carrying amount of trade and other payables	10,017,840	6,752,630

a Fair value

Due to the short-term nature of these payables, their carrying value is assumed to approximate their fair value.

b Related party payables

For terms and conditions relating to related party payables refer to note 14.

13 FINANCIAL INSTRUMENTS

The carrying amount of all financial instruments are equivalent to their fair value. The carrying amounts presented in the statement of financial position relate to the following categories of financial assets and liabilities.

Financial assets at amortised cost

Cash and cash equivalents	7,556,439	3,285,425
Bank deposits	12,435,641	5,471,838
Trade and other receivables	3,005,659	2,294,213
RAL infrastructure bond	1,500,000	1,500,000
Total	24,497,739	12,551,476

Financial assets at fair value through profit or loss

Investments	36,091,957	30,521,303
Total	36,091,957	30,521,303

Financial assets at fair value through other comprehensive income

Investments in Oriens and Ranginui	3,437,069	2,880,602
Total	3,437,069	2,880,602

Financial liabilities at amortised cost

Trade payables	3,150,565	693,168
Related party payables	6,296,542	5,647,718
Borrowings	1,938,375	2,761,005
Unclaimed dividends	12,177,657	11,237,336
Total	23,563,139	20,339,227

Lake Taupo Forest Trust and Subsidiaries

Notes to the Financial Statements

14 RELATED PARTY DISCLOSURE

a Transactions with related parties

		Income from related parties	Expenditure to related parties	Amounts receivable from/(payable to) related parties at year-end
Lake Taupō Forest Trust				
Lake Rotoaira Forest Trust	2020	249,996	-	2,066
	2019	249,996	-	26,150
Lake Taupō Charitable Trust	2020	6,087	443,152	583
	2019	6,087	470,913	926
G Asher	2020	-	-	2,468
	2019	-	-	2,468
Lake Rotoaira Trust	2020	-	-	-
	2019	8,400	-	805
Lake Taupō Forest Management Limited				
Lake Rotoaira Forest Trust	2020	173,921	-	73,859
	2019	169,634	-	22,614

b Related party advances

Lake Taupō Forest Management Limited

Lake Rotoaira Forest Trust	2020	-	(6,296,542)
	2019	-	(5,698,213)

Terms and conditions of transactions with related parties

Sales to and purchases from related parties are made in arm's length transactions both at normal market prices and on normal commercial terms. Outstanding balances at year-end are unsecured, interest free and settlement occurs in cash.

Allowance for impairment loss on trade receivables

For the year ended 30 June 2020, the Group has not made any allowance for impairment loss relating to amounts owed by related parties as the payment history has been excellent (2019: \$nil). An impairment assessment is undertaken each financial year by examining the financial position of the related parties and the market in which the related party operates to determine whether there is objective evidence that a related party receivable is impaired. When such objective evidence exists, the Group recognises an allowance for the impairment loss.

Lake Rotoaira Forest Trust

Lake Taupō Forest Trust provided management and administration services. Lake Taupō Forest management provided forest management services.

Lake Taupō Charitable Trust

Lake Taupō Forest Trust provided management and administration and paid interest earned on unclaimed distributions.

Lake Taupō Forest Management Limited

Lake Taupō Forest Trust provided management, administration services, office space and advances to fund underlying land or forestry investment

Lake Taupo Forest Trust and Subsidiaries

Notes to the Financial Statements

c Compensation for Key Management Personnel

	Group 2020 \$	Group 2019 \$
Total compensation	750,501	813,231

15 Leases

NZ IFRS 16 *Leases* is effective for annual reporting periods beginning on or after 1 January 2019. LTFT group applies NZ IFRS 16 from 1 July 2019 for the first time.

The Group has entered into forestry leases which have a duration of 35 years, with 30 years remaining from 30 June 2020. The forestry leases will be depreciated on a straight line basis across the remaining useful life.

The estimated impact on adoption is:

Recognition of right-of-use asset	7,267,225
Reduction of lease prepayment	(196,218)
Recognition of lease liability	7,071,007

Set out below are the carrying amounts of the right of use assets and lease liabilities recognised and the movements during the period:

Right-of-use Asset - Forestry Rights

Opening carrying amount	-
Addition	7,267,225
Depreciation	(252,388)
Closing carrying amount	7,014,837

Set out below are the carrying amounts of lease liabilities recognised and the movements during the period:

Lease Liability

Opening carrying amount	7,071,007
Interest Expense	252,712
Lease Payments	(391,120)
Closing carrying amount	6,932,599
Current	181,469
Non-Current	6,751,130
	6,932,599

Lake Taupo Forest Trust and Subsidiaries

Notes to the Financial Statements

16 EMISSIONS TRADING SCHEME

The Trust has registered its 23,774 ha of pre-1990 forest land and has received its full allocation of 1.376m carbon credits relating to that land. During 2013/14 the Trust de-registered approximately 600 ha of post-1989 forests from the Ministry for Primary Industries Emissions Trading Scheme. Through this de-registration process the Trust secured net 106,186 carbon credits.

The fair value of the Group's carbon intangible assets recognised as at 30 June 2020 is \$37,784,402 (2019: \$34,322,792).

	Group 2020 \$	Group 2019 \$
Opening balance	34,322,792	-
Revaluation gain	14,054,110	35,590,292
Disposal	(10,592,500)	(1,267,500)
Closing balance	37,784,402	34,322,792

17 AUDITORS' REMUNERATION

Auditors' remuneration

The auditor of Lake Taupō Forest Trust is Ernst & Young.

	Group 2020 \$	Group 2019 \$
<i>Amounts received or due and receivable by Ernst & Young NZ for:</i>		
Audit of the financial statements	66,000	69,300
Assistance with financial statement compilation	16,000	5,775
Tax compliance and consultancy	72,200	29,878
	154,200	104,953

Auditors' remuneration is included in Administration and other expenses in the statement of comprehensive income

18 BORROWINGS

In order to fund the land acquired by the Hautu-Rangipō Partnership Limited, the Hautu-Rangipō Partnership Limited and Trust obtained borrowings from BNZ bank. This was fully repaid in 2019. In June 2019 the Trust obtained borrowings for the purchase of Taurewa/Waituhi/Pureora South forestry rights.

	Effective interest rate %	Maturity	2020 \$	2019 \$
Hautu-Rangipō Partnership Limited	5.18	29 June 2028	-	-
Lake Taupō Forest Trust*	5.31	16 June 2020	-	638,965
Taurewa Waituhi Pureora Loan	4.56	26 June 2023	1,938,375	2,122,040
Total			1,938,375	2,761,005

	2020	2019
Current	198,360	638,965
Non-current	1,740,015	2,122,040
Total	1,938,375	2,761,005

Lake Taupo Forest Trust and Subsidiaries

Notes to the Financial Statements

*BNZ has perfected security interest in all existing and subsequently acquired property of Lake Taupō Forest Trust excluding Maori land vested in the Trustees by order of the Maori Land Court.

19 NATURE AND PURPOSE OF RESERVES

Land revaluation reserve

The land revaluation reserve recognises the excess of valuation of land and improvements over their cost. The reserve does not reclassify to profit and loss in subsequent periods.

Financial assets at fair value reserve

The financial assets at fair value reserve recognises the current balance of all unrealised gains and losses relating to financial assets at fair value through other comprehensive income.

Carbon intangible asset reserve

The carbon revaluation reserve recognises the excess of valuation of carbon assets over their cost. The carbon revaluation reserve does not reclassify to profit and loss in subsequent periods.

20 EVENTS SUBSEQUENT TO BALANCE DATE

There were no material events subsequent to balance date (2019: nil).

21 COVID-19

On 11 March 2020 the World Health Organisation declared the outbreak of COVID-19 a global pandemic. Two weeks later the New Zealand Government declared a state of national emergency. Since 26 March 2020 the country has been through various alert levels and a complete lockdown period at alert level 4 from 26 March to 27 April 2020. COVID-19 has impacted the price of timber and financial markets across the globe. COVID-19 may continue to affect timber prices and the investment market going forward, however at this time it is not practicable to provide quantitative or qualitative estimate of the potential impact.



Independent auditor's report to the Beneficiaries of Lake Taupo Forest Trust

Report on the Summary Financial Statements

Opinion

The summary financial statements on pages 1 to 8, which comprise the summary consolidated balance sheet as at 30 June 2020, the summary consolidated statement of comprehensive income, summary consolidated statement of changes in equity and summary consolidated statement of cash flows for the year then ended, and related notes, are derived from the audited financial statements of Lake Taupo Forest Trust ("the Trust") and its subsidiaries (together "the Group") for the year ended 30 June 2020.

In our opinion, the accompanying summary financial statements are consistent, in all material respects, with the audited financial statements, in accordance with FRS-43: Summary Financial Statements issued by the New Zealand Accounting Standards Board.

Summary Financial Statements

The summary financial statements do not contain all the disclosures required for full financial statements under generally accepted accounting practice in New Zealand. Reading the summary financial statements and the auditor's report thereon, therefore, is not a substitute for reading the audited financial statements and the auditor's report thereon. The summary financial statements and the audited financial statements do not reflect the effects of events that occurred subsequent to the date of our report on the audited financial statements.

The Audited Financial Statements and Our Report Thereon

We expressed a qualified audit opinion on the audited financial statements in our report dated 22 December 2020. As explained in note 10 of the audited financial statements, the Group's land and land improvements with a carrying value of \$84.7m are stated at the most recent Government Valuations. This may be a departure from New Zealand Equivalent to International Accounting Standard 16 (NZ IAS 16) which, when property, plant and equipment assets are subject to revaluations, requires such assets to be revalued to fair value. We have been unable to satisfy ourselves regarding the fair value of the land and land improvements and therefore are unable to quantify the effect of this possible departure from generally accepted accounting practice on the financial performance and financial position of the Group. This matter has no impact on the reported cash flows of the Group. This matter is also disclosed in Note 1 of the summary financial statements.

Those Charged with Governance Responsibilities for the Summary Financial Statements

Those charged with governance are responsible on behalf of the entity for the preparation of the summary financial statements in accordance with FRS-43: Summary Financial Statements.

Auditor's Responsibility

Our responsibility is to express an opinion on whether the summary financial statements are consistent, in all material respects, with the audited financial statements based on our procedures, which were conducted in accordance with International Standard on Auditing (New Zealand) (ISA (NZ)) 810 (Revised): Engagements to Report on Summary Financial Statements.



Ernst & Young provides taxation advice and financial statement compilation services to the Group. We have no other relationship with, or interest in, the Group. Partners and employees of our firm may deal with the Group on normal terms within the ordinary course of trading activities of the business of the Group.

Ernst + Young

Chartered Accountants
Wellington
22 December 2020

Lake Taupo Forest Trust and Subsidiaries

Summarised Statement of Comprehensive Income

For the year ended 30 June 2020

	Group 2020 \$	Group 2019 \$
Revenue	29,853,712	18,863,961
Total operating revenue	29,853,712	18,863,961
Other income	262,445	1,033,666
Interest expense	(363,404)	(137,813)
Other expenses	(18,265,855)	(11,599,506)
Total operating expenses	(18,629,259)	(11,737,319)
Profit before forest crop revaluation and taxation	11,486,898	8,160,308
Forest crop revaluation	54,858,804	38,203,610
Profit before income tax	66,345,702	46,363,918
Income tax expense	(10,376,905)	(8,138,025)
Net Profit for the period	55,968,797	38,225,893
Other comprehensive income		
Intangible carbon asset revaluation	14,054,110	35,590,292
Land revaluation	12,212,106	-
Financial assets at fair value through other comprehensive income	(13,534)	48,331
Other comprehensive income for the period	26,252,682	35,638,623
Total comprehensive income for the period	82,221,479	73,864,516
<i>Profit for the period is attributable to:</i>		
Non-controlling interest	863,901	975,237
Owners of the Parent	55,104,896	37,250,656
	55,968,797	38,225,893
<i>Total comprehensive income for the period is attributable to:</i>		
Non-controlling interest	1,138,863	975,237
Owners of the parent	81,082,616	72,889,279
	82,221,479	73,864,516

The above summarised statement of comprehensive income should be read in conjunction with the accompanying notes.

Lake Taupo Forest Trust and Subsidiaries

Summarised Statement of Changes in Equity

For the year ended 30 June 2020

	Land revaluation reserve \$	Carbon Revaluation Reserve \$	Financial Assets at Fair Value Reserve \$	Retained earnings \$	Owners of the parent \$	Non- controlling interest \$	Total \$
Balance at 1 July 2019	8,810,004	35,590,292	48,331	306,341,025	350,789,652	13,046,252	363,835,904
Profit for the period	-	-	-	55,104,896	55,104,896	863,901	55,968,797
Other comprehensive income	11,937,144	14,054,110	(13,534)	-	25,977,720	274,962	26,252,682
TOTAL comprehensive income for the period	11,937,144	14,054,110	(13,534)	55,104,896	81,082,616	1,138,863	82,221,479
Transactions with owners							
Distributions	-	-	-	(5,000,000)	(5,000,000)	(295,254)	(5,295,254)
Balance at 30 June 2020	20,747,148	49,644,402	34,797	356,445,921	426,872,268	13,889,861	440,762,129
	Land revaluation reserve \$	Carbon Revaluation Reserve \$	Financial Assets at Fair Value Reserve \$	Retained earnings \$	Owners of the parent \$	Non- controlling interest \$	Total \$
Balance at 1 July 2018	8,810,004	-	-	274,241,432	283,051,436	12,382,353	295,433,789
Profit for the period	-	-	-	37,250,656	37,250,656	975,237	38,225,893
Other comprehensive income	-	35,590,292	48,331	-	35,638,623	-	35,638,623
TOTAL comprehensive income for the period	-	35,590,292	48,331	37,250,656	72,889,279	975,237	73,864,516
Transactions with owners							
Distributions	-	-	-	(5,151,063)	(5,151,063)	(311,338)	(5,462,401)
Balance at 30 June 2019	8,810,004	35,590,292	48,331	306,341,025	350,789,652	13,046,252	363,835,904

The above summarised statement of changes in equity should be read in conjunction with the accompanying notes.

Lake Taupo Forest Trust and Subsidiaries

Summarised Balance Sheet As at 30 June 2020

	Group 2020 \$	Group 2019 \$
Current assets	22,035,059	11,129,740
Current liabilities	(22,722,225)	(18,757,248)
Net Current Assets/(Liabilities)	(687,166)	(7,627,508)
Non-Current assets	503,420,690	416,689,220
Non-Current liabilities	(61,971,395)	(45,225,808)
Total Net Assets	440,762,129	363,835,904
FUNDS ATTRIBUTABLE TO BENEFICIARIES		
Retained earnings	356,445,921	306,341,025
Financial assets at fair value reserve	34,797	48,331
Land revaluation reserve	20,747,148	8,810,004
Carbon revaluation reserve	49,644,402	35,590,292
Beneficiaries' interests	426,872,268	350,789,652
Non-controlling interests	13,889,861	13,046,252
TOTAL EQUITY	440,762,129	363,835,904

For and on behalf of the Board of Trustees, who authorised the issue of these summarised financial statements on 18 December 2020. The summarised group financial statements have been extracted from the full audited group financial statements of the Trust for the year to 30 June 2020.

Chairman:



18 December 2020

Trustee:



18 December 2020

The above summarised balance sheet should be read in conjunction with the accompanying notes.

Lake Taupo Forest Trust and Subsidiaries

Summarised Statement of Cashflows

For the year ended 30 June 2020

	Group 2020 \$	Group 2019 \$
Cash flows from operating activities		
Net cash inflow from operating activities	13,364,323	6,237,515
Cash flows from investing activities		
Net cash outflow applied to investing activities	(4,564,570)	(3,899,774)
Cash flows from financing activities		
Net cash outflow applied to financing activities	(4,528,739)	(5,062,171)
Net increase/(decrease) in cash held	4,271,014	(2,724,430)
Balance 1 July	3,285,425	6,009,855
Balance as at 30 June	7,556,439	3,285,425

The above summarised statement of cash flows should be read in conjunction with the accompanying notes.

Lake Taupo Forest Trust and Subsidiaries

1 Statement of Compliance and Basis of Preparation

The summary financial statements of Lake Taupo Forest Trust and its subsidiaries (the “Group”) have been prepared in accordance with Financial Reporting Standard 43: Summary Financial Statements. The full financial statements comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities except for the Group’s land and land improvements with a carrying value of \$84.7 million are stated at the most recent Government Valuations which are values based on vacant possession of the land. This is a departure from New Zealand Equivalent to International Accounting Standard 16 (NZ IAS 16) which, when property, plant and equipment assets are subject to revaluations, requires such assets to be revalued to fair value.

For the purposes of complying with NZ GAAP, the Group is eligible to apply Tier 2 For-Profit Accounting Standards (New Zealand equivalents to International Financial Reporting Standards – Reduced Disclosure Regime (“NZ IFRS RDR”)) on the basis that it does not have public accountability and is not a large for-profit public sector entity. The Group has elected to report in accordance with NZ IFRS RDR and has applied disclosure concessions.

The full financial statements comply with NZ IFRS RDR except that land leased to the Ministry for Primary Industries and other land (primarily related to trust land used in the Trust’s own forestry operation) is carried at Government Valuation rather than fair value as required by NZ IAS 16. The Group has not made an explicit and unreserved statement of compliance with IFRS in its full financial statements.

The summary financial statements are presented in New Zealand Dollars and all values are rounded to the nearest dollar. The summary financial statements are prepared on the historical cost basis, except for forestry assets, intangible carbon assets and certain financial assets which are carried at fair value. The specific disclosures included in these summary financial statements have been extracted from the full financial statements. No information extracted from the full financial statements has been restated or reclassified.

2 Summary Financial Statements

The full financial statements, which were authorised for issue on 18 December 2020, have been subject to audit by Ernst & Young and a qualified audit report was issued dated 18 December 2020. The summary financial statements have been examined by the auditor for consistency with the full financial statements. The audit report qualification relating to the full financial statements was in respect of non-compliance with NZ IAS 16, whereby land owned by the Trust is included in the financial statements at Government Valuation which is not fair value as required by NZ IAS 16.

The summary financial statements cannot be expected to provide as complete an understanding as that provided by the full financial statements.

The full financial statements can be obtained from the office of Lake Taupo Forest Trust, Box 102, Turangi on request.

3 Carbon intangible assets

The Trust has registered its 23,774 ha of pre-1990 forest land and has received its full allocation of 1.376m carbon credits relating to that land. During 2013/14 the Trust de-registered approximately 600 ha of post-

Lake Taupo Forest Trust and Subsidiaries

1989 forests from the Ministry for Primary Industries Emissions Trading Scheme. Through this de-registration process the Trust secured net 106,186 carbon credits.

The fair value of the Group's carbon intangible assets recognised as at 30 June 2020 is \$37.8 million (2019: \$34.3 million).

4 Forestry Asset

	Group 2020 \$	Group 2019 \$
Forest Crop – Trust's share of joint venture forest		
<i>Asset at 1 July</i>	24,337,700	36,426,950
Harvest	(12,182,804)	(14,573,035)
Current year increase in valuation	6,750,104	2,483,785
<i>Forest market value at 30 June</i>	18,905,000	24,337,700
Forest Crop – Trust's Forest		
<i>Asset at 1 July</i>	249,878,903	198,000,233
Harvest	(12,960,816)	(465,933)
Current year increase in valuation	73,252,320	50,758,793
Capitalised costs	2,190,174	1,585,810
<i>Forest market value at 30 June</i>	312,360,581	249,878,903
Current year increase in valuation		
Total forest crop market value at 30 June 2020	331,265,581	274,216,603

The Group holds the forestry asset for the purpose of harvest.

Lake Taupo Forest Trust and the Ministry for Primary Industries have a joint venture agreement whereby land harvested each year is surrendered from the lease and returned to full Trust control. In 2020 the Crown and Trust agreed that while the lease will expire in June 2021, the Trust will grant a forestry right to the Crown to have the arrangement extend to 2023. The Crown plans to still have around 300,000m³ of trees in the forest at June 2021, and will probably complete the harvest of this wood by June 2022, at which point the Trust will be one hundred percent owners of the 23,000-hectare forest estate. At 30 June 2020 the Trust had full control of 93.9% (2019: 90.9%) of the initial Crown lease component of the forest.

Indufor Asia Pacific Limited (an independent valuer) has calculated the Trust's share of value of the remaining hectares of joint forest crop as at 30 June 2020 at \$18,905,000 (2019: \$24,337,700). The valuation is based on the pre-tax net present value (NPV) of the future stumpage receipts, of which 35% goes to Lake Taupo Forest Trust and 65% to the Crown. In calculating the value, Indufor applied a 7.5% (2019: 8.0%) discount rate to the future cashflows.

	Group 2020 \$	Group 2019 \$
Valuation at 30 June	18,905,000	24,337,700

The trees in the joint venture forest are all aged over 27 years. Sales of trees harvested during the current reporting period totalled 476,000m³ (2019: 527,000m³). The fair value of this harvested product was \$34,766,000 (2019: \$41,637,243) of which Lake Taupō Forest Trust received a 35% share.

The Trusts' own forest has a total stocked area of 22,623 hectares (2019: 23,712), ranging in age from 1 to 23 years. Indufor Asia Pacific Limited has valued these at 30 June 2020 at \$312,360,581 (2019: \$249,878,903). This value includes a share of a plantation investment with the Lake Rotoaira Forest Trust owning the other share

Lake Taupo Forest Trust and Subsidiaries

on Opepe Forest Trust lands. Indufor Asia Pacific Limited has valued the Trust's share of this forest at 30 June 2020 at \$5,327,529 (2019: \$4,230,541). Also included is a plantation investment with the Lake Rotoaira Forest Trust owning the other share on Hautu Rangipō Whenua Lands called Kaimanawa Forest. Indufor Asia Pacific Limited has valued the Trust's share of this forest at 30 June 2020 at \$3,187,881 (2019: \$2,390,388). Also included, is a share of a plantation investment with the Lake Rotoaira Forest Trust owning the other share on Tuwharetoa Settlement Trust lands being Taurewa, Waituhi and Pureora South Forests. These were purchased at 30 June 2018 at their fair value of \$3,300,000. At June 2020 these forests are valued at \$4,569,737.

	Group 2020 \$	Group 2019 \$
Valuation at 30 June	312,360,581	249,878,903

The inputs applied in the valuation of the Trust's forest crop have been categorised as level 3 in the fair value hierarchy.

The Group is exposed to financial risks in respect of agricultural activity. The agricultural activity of the Group consists of the management of forests to produce logs. The primary financial risk associated with this activity occurs due to the length of time between expending cash on the purchase or planting and maintenance of trees and on harvesting trees, and ultimately receiving cash from the sale of logs to third parties. The Group's strategy to manage this financial risk is to actively review and manage its working capital requirements. In addition, the Group maintains credit facilities at a level enough to fund the Group's working capital during the period between cash expenditure and cash inflow. The Group's investment strategy includes a Growth Portfolio of investments called the Forestry Reserve Fund which is available to support any cash flow or financial risk from Forestry. Currently this is valued at \$14.7 million (2019: \$13.2 million).

5 Leases

NZ IFRS 16 *Leases* is effective for annual reporting periods beginning on or after 1 January 2019. LTFT group applies NZ IFRS 16 from 1 July 2019 for the first time.

The Group has entered into forestry leases which have a duration of 35 years, with 30 years remaining from 30 June 2020. The forestry leases will be depreciated on a straight line basis across the remaining useful life.

The estimated impact on adoption is:

Recognition of right-of-use asset	7,267,225
Reduction of lease prepayment	<u>(196,218)</u>
Recognition of lease liability	7,071,007

Set out below are the carrying amounts of the right of use assets and lease liabilities recognised and the movements during the period:

Right-of-use Asset - Forestry Rights

Opening carrying amount	-
Addition	7,267,225

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Depreciation	(252,388)
Closing carrying amount	<u>7,014,837</u>
Set out below are the carrying amounts of lease liabilities recognised and the movements during the period:	
Lease Liability	
Opening carrying amount	7,071,007
Interest Expense	252,712
Lease Payments	<u>(391,120)</u>
Closing carrying amount	6,932,599
Current	181,469
Non-Current	<u>6,751,130</u>
	6,932,599

6 COVID-19

On 11 March 2020 the World Health Organisation declared the outbreak of COVID-19 a global pandemic. Two weeks later the New Zealand Government declared a state of national emergency. Since 26 March 2020 the country has been through various alert levels and a complete lockdown period at alert level 4 from 26 March to 27 April 2020. COVID-19 has impacted the price of timber and financial markets across the globe. COVID-19 may continue to affect timber prices and the investment market going forward, however at this time it is not practicable to provide quantitative or qualitative estimate of the potential impact.